

JPRS-UEA-88-037  
4 OCTOBER 1988



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# ***JPRS Report***

# **Soviet Union**

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***Economic Affairs***

# Soviet Union

## Economic Affairs

JPRS-UEA-88-037

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4 OCTOBER 1988

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## ECONOMIC POLICY, ORGANIZATION, MANAGEMENT

### Bankers Discuss Activities of New Leningrad Joint Stock Banks

18200292 Moscow *EKONOMICHESKAYA GAZETA* in  
Russian No 34, Aug 88 p 5

[Discussion, under the rubric "EKONOMICHESKAYA  
GAZETA's Business Club" conducted by B. Rovda:  
"Risk—A Bank Matter"]

[Text] The first joint stock commercial banks in the  
USSR have been created in Leningrad. One of them—  
the Leningrad Innovation Bank (LIB)—has just started  
work. Soon the activities of the joint stock commercial  
banks "Energomash" and "Tekhnokhim" will begin,  
under concerns of the same names. LIB, Energomash  
and Tekhnokhim are taking upon themselves a role  
unusual for our banks. They intend to take risks and to  
carry out active operations in the credit-finance sphere.

The following people are taking part in EKONOMI-  
CHESKAYA GAZETA's "Business Club," dedicated to  
questions of restructuring in the credit-finance sphere:  
Vladimir Gavrilovich Semenov, chief of the Leningrad  
Oblast administration of the USSR Promstroybank,  
chairman of the joint stock council of the LIB and  
candidate of economic sciences; Leonid Petrovich Tal-  
mash, deputy chief of the Leningrad Oblast administra-  
tion of the USSR Promstroybank, leader of the Energo-  
mash bank organizational group, candidate of economic  
sciences; Valeriy Yefimovich Rakhayev, first deputy  
director of the Leningrad Innovation Bank; and Dmitriy  
Ivanovich Dmitriyev, chairman of the board of the  
Tekhnokhim bank.

### A New Link in the Banking System

EG [EKONOMICHESKAYA GAZETA]: What kind of  
tasks do joint stock commercial banks face?

V. Semenov: A cost-accountable economy needs an  
adequate credit mechanism. A bank cannot remain a  
passive observer of changes taking place in the country.  
Active support on the part of the banks is necessary in  
order to promote scientific-technical progress, increase  
production efficiency and improve product quality. A  
special innovation bank should serve first of all the  
growth of economic potential and the acceleration of  
work in using the achievements of science and technol-  
ogy.

V. Rakhayev: LIB is a credit institution, created on a  
voluntary joint stock basis by Leningrad enterprises,  
organizations, and institutions. Its goal is the efficient  
use of joint financial resources as well as the newest  
economic methods for accelerating the implementation

of highly profitable inventions and innovations. This  
encompasses the whole path of innovation, from an idea  
to its implementation in production and output of the  
final products.

Today our country has a mass of "homeless" ideas,  
inventions, efficiency proposals, and leading technology  
and production methods. So that they are not wasted,  
but put to use, it was necessary to create a bank such as  
ours.

EG: So, if a person has an idea promising large profits, he  
goes with it to the bank. Then what?

V. Semenov: Our bank is a commercial bank, a "risk  
bank," but if it took any idea indiscriminately it might go  
bankrupt. The main criteria for our activity is econom-  
ically accountabl profit, which allows us to recoup  
expense and leads to formation of the bank's economic  
stimulation fund. Therefore, the path of each proposal  
begins with an evaluation by a council of experts. The  
expert evaluation is carried out quickly and qualita-  
tively. The technical specifications chart and all the  
financial documents relating to realization of the pro-  
posal are compiled, and an evaluation of the economic  
prospects is given. Finally, the idea is checked for patent  
safeguards, so as not to reinvent the wheel.

If the experts make a positive decision then the question  
of where to start production—at a joint stock enterprise  
or some other kind—is decided at once. There are  
factories and plants, not operating at full capacity, that  
are interested in increasing their incomes. And in the  
given case, nothing has to be agreed upon with Gosplan  
or a ministry, since the bank finances the development.  
A labor contract is concluded which notes the responsi-  
bilities of the inventor, the manufacturing enterprise,  
and the bank, and the share of profits of each participant  
in the joint stock deal is established.

We can also buy the rights from the inventor, if he so  
wishes, and we ourselves will implement the innovation.

EG: And what if the expert evaluation turns out to be  
unfounded?

V. Semenov: That means the next time they won't be  
involved in the work. It is impossible for us to have in  
that place a person who would receive a constant salary,  
but lose his touch! But on the contractual, competitive  
basis which we foresee, interest in our work is high. Our  
staff experts (we looked for them in educational and  
academic institutes) are occupied with the organiza-  
tional side of the matter, and with the primary exami-  
nation.

EG: And are there ideas from inventors working alone?

V. Semenov: There are. They are basically connected  
with the production of consumer goods. Let me note that  
the proposed products are more competitive than those

manufactured by industry. One of the first innovations, which we are already preparing for production, involves photographs and cinema. It is useful both for amateurs and professionals.

V. Rakhayev: However, the inventor working alone is not the basis of our contingent, although, as it seems, the most complicated. We are still at the beginning of the road: frequently we do not know how to evaluate one or another idea, but the inventor requests money for development or introduction. Then, of course, we will be able to buy any good idea, promising large profits both to our shareholders and to its inventor.

L. Talmach: The activity of LIB is very specific, but at the commercial joint stock banks Energomash and Tekhnokhim it encompasses the whole spectrum of credit-finance relations of concerns [organizations of enterprises, etc.]. The administrative system is two-stepped: the board and branches of the enterprises of the concern which are far from Leningrad.

The main task of these banks is to strengthen the role of credit-accounting relations and to increase the efficiency and the growth of final results of the self-managing concerns to which the banks belong.

All questions connected with the basic activities of their enterprises, with capital construction, foreign economic activity or cash services are decided by the banks located there. Moreover, the banks can maneuver the financial resources which the enterprises have at their disposal, and can redistribute them the best way within the concern.

D. Dmitriyev: At once, as soon as the Energomash and Tekhnokhim banks opened, all the enterprises in the concern transferred to them and did not work with other banks. All the accounts of the enterprises were transferred to these banks. Thus, in the beginning of July all the joint stock enterprises of Energomash and Tekhnokhim were withdrawn from the ministries and departments and subordinated to the boards of the concerns. Our banks are also subordinate only to their boards.

#### Who Can Be a Shareholder

EG: The enterprises-concern members are shareholders in these two commercial banks. But who are the shareholders of LIB and how did they become shareholders?

V. Semenov: Any association, enterprise, organization, VUZ, or cooperative can join the Leningrad Innovation Bank. The preliminary contribution is no less than R100,000. The shareholding institutions of our bank include the Leningrad Oblast council of the All-Union Society of Inventors and Rationalizers [VOIR], the technical administration of the Leningrad gorispolkom, and the production association "Nevskiy Plant imeni V.I. Lenin." Institutes include those of precision mechanics and optics, aviation instrument making, electrotechnical

and others—in all 14 shareholders. This also includes the Leningrad Oblast administration of USSR Promstroybank, which has the largest number of shares—33 percent. Promstroybank also has 30 percent of shares in the Energomash and Tekhnokhim banks. Not one of the 3 Leningrad banks has a controlling package of shares.

EG: Participation of a state bank in the makeup of the joint stock commercial banks indicates...

V. Semenov:...that USSR Promstroybank is like the guarantor of the new banks on the part of the state, since namely Promstroybank initiated their creation. This applies first of all to LIB. The idea of creating such a bank on the basis of an analysis of the country's existing banking system and foreign practice arose with the chairman of the board of USSR Promstroybank, Mikhail Semenovitch Zotov, whose support we are always aware of. The Leningrad party and soviet organs rendered us a great deal of help. There were no routine delays: every question was resolved expeditiously and synonomusly. A very important link was created which the credit-finance system lacked.

What kind of bank considered first of all its main tasks to be actively influencing the acceleration of scientific-technical progress and the development of the initiative of collectives and individual citizens in working out and introducing inventions or innovations for increasing the technical level of production and the output of new, highly efficient and high quality types of production? We intend to provide various services to the population, to develop export production at joint stock enterprises, to carry out a collection of proposals and an analysis of demand in the area of innovation activity, and to provide as many consultations as possible. And all this on the basis of complete economic accountability and self-financing.

#### Credit Priorities

EG: What kind of programs receive priority in LIB's activity?

V. Rakhayev: These are first of all credit operations for actual social programs in our city. One such program is "Housing-2000," whose overseer is one of our shareholders, the technical administration of the Leningrad gorispolkom. We are also interested in increasing the technical level of institutions and organizations of our social sphere, enterprises of the food industry, trade, and the construction industry.

EG: Would it be possible to raise the curtain on commercial secrets and specify the direction of the bank's first efforts?

V. Semenov: In the program "Housing-2000" our credit for only the first stages amounts to R1 million (in comparison the charter fund is 5 million). It was proposed to create a special technological line for the output



of components for constructing housing complexes. In the future we would be able to produce them for other regions of the country as well.

Another actual direction of credit operations is the creation of high quality consumer goods. In a word, our choice convinces shareholders of the reality of a swift return on their money and they increase their charter contributions.

Of course, the bank is at risk, and we are trying to manage without adventurism. We take only justified risks, otherwise our shareholders would have to pay for everything. But in the meantime the percent of risk remains great: the new finance-credit mechanism has not been completely studied. We are involved in working it out right now: crediting, forming orders, contracts, creating temporary labor collectives.

EG: The Leningrad Innovation Bank as well as the two other banks are joint stock banks. Do their shares exist?

V. Semenov: Unfortunately, up to this time there was no precedent in the country, the legal questions have not been worked out, and there are no specifics for registering, issuing or distributing shares. Many questions require agreement with the central organs. As the bank's portfolio of orders is enlarged and its funds grow, we will be able to act more boldly and to attract money not only from state enterprises and cooperatives but also from individuals. Therefore the question of issuing specific shares, possibly, will be reviewed in the near future.

Regarding the Energomash and Tekhnokhim banks, here too the issue of shares and their distribution among the working concerns is foreseen.

EG: Who can be a partner of the commercial banks?

D. Dmitriyev: The banks can enter into mutual relations with any USSR or foreign banks and work with them in all types of services on a contractual basis. They can "buy" free monetary resources from any bank in the Soviet Union, take it from the joint stock enterprises and involve more than their own funds.

L. Talmach: At the end of each year the difference between incomes and expenditures forms the economic accountability income—profit. It will be distributed in the following way: deductions into the state budget and formation of all the bank's funds. According to a decision of the joint stock council net profit can go to increase the bank's own money, or be allocated to the joint stock enterprises for their development. It is possible not to divide the profit, but send the whole amount to where it is most needed. The more money the bank has, the less it needs to borrow in the market. In the future it is likely that the banks, including the innovation bank, will themselves "sell" their money resources to other banks.

D. Dmitriyev: I want to touch on one other side of the commercial bank's activities—services. We provide all types of services not only to our shareholders but to all clients, including members of the concerns' labor collectives. Services can have an information or mediating character. They can be all types of loans, organization of communal payments, credits, etc. In a word, life will prompt us. UD/325

#### Chief State Arbitrator Interviewed on Role Under Reform

18200249 Moscow PRAVDA in Russian 8 Jul 88 pp 1,2

[Interview with N. Malshakov, USSR Chief the State Arbitrator, by V. Parfenov: "Arbiters"]

[Text] The radical reform in the management of the economy should have a solid legal foundation. This is clearly reflected in materials from the 19th All-Union Party Conference, which demanded that the State Board of Arbitration be strengthened. It obviously will have to overcome decisively the resistance of agencies interfering with labor collectives operating under the USSR Law on State Enterprises (Associations). How will State Board of Arbitration do this?

[Answer] Any resistance, no matter where it occurs, should, of course, in the logic of revolutionary struggle, be overcome. It is clear to everybody that it is necessary to legally guarantee labor collectives' independence, protect their interests and rights provided by the USSR Law on the State Enterprises (Associations). Certainly, it should be agreed that in economic relationships self-interests and narrow departmental approaches predominate. There are many cases of conflicts between ministries and departments. There are still arbitrary administrative methods of exercising pressure on lower units. This is not in accordance with the new conditions of operating and economic methods of management.

Undoubtedly, today many enterprises are not yet able to stand on their own, or to defend the rights and independence they have obtained. There are many explanations for this: the low standards of work by legal services, a poor knowledge of law and the ways and means of legal defense. Therefore, there is great urgency in the 19th All-Union Party Conference's instructions that legal services in the national economy and the organization of general legal education require substantial development.

It is completely natural that, when necessary, labor collectives count upon legal defense from legal protection organs, including the State Board of Arbitration. Every year the country's arbitrators solve about 800,000 economic disputes. This year the State Board of Arbitration is in charge of examining enterprises' claims against superior organs for damages to compensate for losses caused by implementing their illegal instructions. The

State Board of Arbitration is fully empowered to examine enterprise claims to deem a superior organ's acts illegal, if these acts are not within the competence of that organ, or if they violate the law.

Based upon a regular analysis of practical work by the State Board of Arbitration and republic Boards of Arbitration, instructions are published on questions of applying law in resolving disputes and upon their resolution without resorting to arbitration. These instructions are also obligatory for ministry arbiters.

State Board of Arbitration organs are entrusted with control over the activities of ministry arbiters and over other departmental organs resolving economic disputes. It should be frankly stated that in many cases departmental arbiters poorly defend the rights and interests of enterprises. This is impermissible in the transition to full cost accounting. Being a unit of a ministry, departmental arbiters are often dependent upon the positions of management workers and therefore are not always guided by the law and the enterprise's interests in resolving disputes.

[Question] Nikolay Petrovich, you know well that our economy is a ship on a vast "ocean" of paper. How energetically are instructions being eliminated if they have become obsolete after the introduction of the Law on State Enterprises (Associations)?

[Answer] Much has been done and is being done to clean out and review all-union, republic and departmental normative documents, instructions, and interpretations and to replace those of them which conflict with the Law on the State Enterprises (Associations) or which limit labor collectives' initiative and independence. We have already completely or partially revoked more than 2,000 country wide legal documents, more than 11,000 decrees of union republic councils of ministers and more than 165,000 documents of all-union and republic ministries and agencies. Various types of sanctions have been removed from normative documents. The number of them in the new rules on deliveries of products and goods has been reduced by 62 percent, and by about 70 percent in agency economic documents. Nevertheless, it is necessary not only to clean out old "obstructions," but to prevent the creation of new ones.

[Question] What important changes does the Law on State Enterprises (Associations) make in the work of the the State Board of Arbitration?

[Answer] One should not only mention this law, but also the CPSU Central Committee and USSR Council of Ministers decree "On Further Improvements in the Activities of the State Arbitration Organs and Improvements in their Role in Strengthening Legality and Contractual Discipline in the National Economy", and the Ukazy of the Presidium of the USSR Supreme Soviet. Today it is possible for us to avoid specific arbitration work. Instead we check how enterprises and associations

observe legislation on concluding and observing economic contracts, hear reports from officials, issue obligatory instructions on the elimination of legal violations and to review on how ministries and agencies organize and manage contract work in their sectors.

It is very important that these reviews do not pursue formal-bureaucratic goals, but always be accompanied by attempts to strengthen ties with collectives, to give useful legal assistance in practical measures and to strengthen legality and contract discipline. Many state arbiters work in this way. For example, early last year the state arbiter in Gorkiy Oblast reviewed the observation of contract law at the Vesna Sewing Association, at which there had been poor discipline in deliveries. Serious shortcomings and oversights in organizing and controlling contract fulfillment were discovered. Taking the arbiter's recommendations into account, the association implemented the necessary measures. As a result, last year the association completely met contractual obligations, handling them in one half year.

[Question] Do state arbiters have important work other than control functions?

Prevention activities importance is increasing greatly. Today this section is one of the most important. During the conversion of enterprises to self-financing it will be necessary to improve the financial health of those which are in unsatisfactory condition. Every fourth enterprise is still in a difficult financial condition, and every seventh is losing money. It is understood that these enterprises can have a solid financial base and a substantial cost accounting income when they get rid of inefficiency and unproductive losses and decisively strengthen contract discipline. It is equally important to learn how to multiply public wealth. As you know, waste, defective goods, losses and basic inefficiency in the national economy total about three billion rubles annually.

It is all labor collectives' obligation to improve the situation and decisively eliminate the primary reasons for unproductive losses. Of course, many collectives need specific help. This does not mean just control and the injection of resources by ministries and agencies. The State arbitration organs can also use legal means to assist in eliminating first causes and to recover damages from guilty parties.

An extremely important task posed by the All-Union Party Conference is to complete the creation of a socialist legal state, in which law should always and in every way be supreme and sacred. It requires that all echelons of management unwaveringly and irreproachably observe the law in preparing and assuming any normative, so-called sub-legal [podzakonnyye] acts. Any deviation, even "so-so," or any divergence between the letter and spirit of the law, no matter what its motivation, should be appraised from the perspective of basic principles.

Most state arbitration workers are actively engaged in perestroika and in mastering their new powers. However, it must be frankly admitted that at many state arbitration offices perestroika is proceeding slowly. Their work does not yet meet today's requirements. Their activities are still not sufficiently concentrated upon analyzing processes taking place in the economy. These and other questions in our work, practical ways of overcoming difficulties and unsolved problems were the subject of a constructive exchange of opinions at an expanded meeting of the Collegium of the State Board of Arbitration with participation by the main state arbiters from union republics. Much still remains to be done and overcome.

[Question] Plants and associations still have to perform unplanned work ordered by ministries and local party and soviet organs. What is the current situation, after the Law on Enterprises (Associations) has been passed?

[Answer] Why do they still have to perform this work? In really necessary cases enterprises will continue to be called upon, as is provided for in the Law on Enterprises (Associations) (Point 5, Statute 9), to perform work and other services assigned by superior organs and soviets of people's deputies, but which are not included in plans. However, this is only on the basis of economic contracts and compensation by those organizations for which they are performed. A contractual form of relations in rendering assistance to kolkhozes and sovkhozes now a covered by civil law. In signing contracts parties usually independently find mutually acceptable solutions for organizing work and paying for people's labor. This is proven by the very insignificant number of disputes concerning such contracts which have been turned over for resolution by state arbitration.

[Question] How is the State Board of Arbitration reacting to cases where ministries and agencies give enterprises state orders for 100 and more percent of production volume? Have material damages been levied against any agencies for such planning now that the Law on Enterprises (Associations) is in effect?

[Answer] More than for all the components of the plan, widespread polemics and sometimes substantiated complaints have arisen around state orders. In compiling draft plans some ministries have not given consideration to enterprises' actual potentials and working conditions. As a result, state orders are not supported by the necessary material resources, their total volume exceeds enterprise production capacity. The State orders often do not leave room and possibilities for independent, direct order contracts with customers.

It should be frankly admitted why this has become possible. At the time the 1988 plan was compiled there were no provisions for state orders, while the Law on Enterprises (Associations) said nothing about the composition of such orders, their maximum size relative to production plans, about material and technical supplies,

etc. This led to many absurdities about which much has been written, including in PRAVDA. All this resulted in confusion, in many different opinions, in particular, to whom is the enterprise to appeal when, in its opinion, state orders are not commensurable with production capacities or are not supported by material-technical resources.

The State Board of Arbitration has also been criticized in these discussions: Why does it not defend enterprises in cases involving state orders? It does not have the right to interfere in each management organ. The State Board of Arbitration can act only on the basis of law and to exercise it.

On the other hand, it should not be forgotten that the state order system is called upon to guarantee the satisfaction of top priority social requirements, to solve general state tasks, carry out scientific and technical programs and strengthen the country's defense capabilities and maintain its economic independence. It is no accident that the Law (Statute 10, paragraph 3) states directly: "It is mandatory that state orders be included in the enterprise plan." In its turn, as a law enforcement organ, the State Board of Arbitration is obligated to see to the exact and unwavering observation of this requirement by the law.

As to the question of how the State Board of Arbitration reacted to enterprises complaining about the state order volume, such requests came to us at the end of last year and the beginning of this year. Together with our petitions, they were sent to the appropriate ministries and agencies for resolution, where many of them resulted in positive decisions.

[Question] A sizable share of enterprises (15-20 percent) are still not completely filling state orders. What explains this low discipline? What basic measures must be taken so that all orders will be 100 percent fulfilled?

[Answer] In many instances failures to meet contractual obligations are caused by the enterprises themselves. These include shortcomings in production organization, violations of technological and labor discipline and lack of accounting and control over contract fulfillment. However, there are many enterprises which have achieved the proper rhythm for deliveries in accordance with contracts.

The delayed conclusion of economic contracts between manufactures and customers had a negative effect upon deliveries, especially in the first quarter. Last year's contract campaign was better organized, however, many ties were not established even by the start of this year. This is frequently explained by economic managers' underestimating the importance of signing contracts at



the proper time. Work is also hindered by central economic agencies' slowness in handing down balances and plan targets for the centralized distribution of products and by ministries' tardiness in distributing products among customers.

The signing of economic contracts for 1989 has now begun. Conclusions should be drawn from previous mistakes. Without waiting for plan documents ordering the supply of centrally distributed products, it is important to continue previously signed contracts into 1989 and to be on time in supporting the possibility and suitability of contractual relations between suppliers and customers for next year.

The level of contract discipline depends upon steady supplies of raw and other materials and parts to enterprises and upon trouble free transportation. Enterprises' supplies can and should be improved by the rapid development of wholesale trade, by the expansion of deliveries by direct unlimited orders from customers. In our view, this requires improvements in transportation organizations' economic responsibility for fulfilling the haulage plans for national economic freight.

[Question] Are the State Board of Arbitration organs right in fully recovering losses and levying fines upon guilty enterprises, even if this entails their bankruptcy?

The Law on Enterprises (Associations) provides that an enterprise bears economic responsibility for the failure to observe contractual obligations and must pay for damages caused the customer. The use of responsibility measures is not only to punish the guilty enterprise but also to compensate the injured party for losses. This is completely in accordance with cost accounting principles. Usually, the violation of obligations by one enterprise starts a chain of other violations that, in the final account, have a negative effect upon the functioning of the entire economic mechanism and reflect upon citizens' interests. Therefore, state arbiters will have the right to use economic responsibility. Enterprises, on the other hand, have a right to bank credit. Also, superior organs can provide insolvent enterprise resources through central funds, on the condition that they are paid back.

The Law on Enterprises (Associations) (Statute 23) makes it possible to halt an enterprises' activities in cases of prolonged losses or insolvency, if there is no demand for its products and if all measures to assure profitability have no results. Some enterprises with low or no profits have been reprofiled, have become shops for other associations, or used as the basis to set up cooperative.

[Question] It is noted in materials from the 19th All-Union Party Conference that the strengthening of legality should serve to expand the potentials of state arbitration. In your view what steps should be taken in this direction?

[Answer] It has become obvious that the retention of agency based arbitration contradicts the spirit, and in some cases the letter of the Law on Enterprises (Associations) which gives enterprises their economic independence. In the transition to full cost accounting and self-financing enterprises have the right to have their economic disputes examined by an independent arbiter where the primacy of legality is in effect and not the primacy of suitability to agency interest. The time has come for the country's arbitration system to be brought into accordance with the USSR Constitution (Statute 163). With this goal in mind all arbiters should be combined into a single system of state arbitration organs. This system should examine economic disputes between enterprises and organizations independently of the subordination of the disputing parties.

In our view state arbitration should be given the right to completely or partly annul normative acts, if ministry and agency managers do not take the measures necessary to correct a situation. Because state arbitration organs encounter problems of legislation and imperfections in its norms, and has considerable experience in creating such norms, it would be justified to give the State Board of Arbitration the right to make legislative initiatives.

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#### **Interbranch Organizations Supported as 'Reform From Below'**

18200247 Moscow SOVETSKAYA ROSSIYA in Russian 8 Jul 88 pp 1, 3

[Article by B. Milner, doctor of economic sciences: "Breaking Through the Bastion of Departmentalism"]

[Text] In the discussion of problems in economic perestroika at the 19th All-Union Party Conference, there were especially urgent demands to overcome the retarding influence of departmental stereotypes upon the management of the national economy. This has long been a problem. Gradually departmental interests have come to dominate general state and social social interests, causing production efforts to deviate from the main socialist goals. Materials from the past five Party Congresses (23rd through 27th) invariably cite the tasks of overcoming narrow sectoral and departmental constraints and introducing effective management based upon an intersectoral approach. However, over a 20 year period not a single intersectoral, interdepartmental production-economic complex was created. It appears that the main retarding factor is the decades old departmental-sectoral management system which, under the reign of command methods, created a huge and immobile superstructure over enterprises and remained untouchable for a long time.

In any economic system the deeper the division of labor, the more acute the need for integration to combine intellectual and production potentials. There is a tendency for large national economic problems to arise at the



interface between sectors. In fact, these conceal large reserves for improving production efficiency. MNKTs [Intersectoral scientific-technical complexes], which appeared 2-3 years ago, were the first strong response to the pressing needs of scientific and technical progress. They were well thought out with regard to scale and scope. Great hopes were placed upon them, but there was no real concentration of efforts and resources. All participants in MNTKs remained in their own departments, with the ensuing consequences: priority given to sectoral tasks, dependence upon the ministry system in plan compilation, resource allocation, material-technical supply and evaluating results. A "lebed, rak da shchuka" ["swan, crawfish, pike" (Everyone pulling in a different direction)] scheme dominates. Under these conditions it is difficult to rationally organize participants from various sectors to develop and produce fundamentally new technologies and materials. The resulting decisions did not overcome departmental interests: ministries did not give priority to allocating resources to complexes. Only one-fifth of the products developed by MNTKs are comparable with higher world levels.

What is the main link? Upon what do advances in intersectoral organization and sharp improvements in their output depend?

Recently we have been talking and writing a lot about the new economic thinking. However, this new thinking cannot spring up instantaneously, nor "appear from the sea," nor will it arise from an abundance of fine slogans. What is needed are an environment and economic and organizational mechanisms upon which to base this thinking and which can help realize it. One of the most instructive lessons from the unsuccessful economic reforms at the end of the 1950's, the middle of the 1960's and the end of the 1970's is that they were based upon the idea that economic power is found "above" and not "below." This is the reason for the preservation, in various forms, of a huge administrative superstructure, departmental principles in leading the reforms, the unsteady coexistence of cost accounting "from below" and higher components demanding "tempo" and gross income.

One must add that it is impossible to combine the new economic mechanism with old organizational forms. The command system is opposed to a diversity in forms, it only needs the vertical ministerial sectoral structure. This gives rise to uniform structures for all conditions and the simplified alternatives: either ministries "or" sovnarkhozes, "or" enterprises, "or" associations. Organizational structures suitable to horizontal ties and direct contractual relationships turned out to be unnecessary and not compatible with rigid and uniform management structures. "Squeezing" economic methods into unaltering administrative forms of departmental management deforms these methods. They therefore do not produce the results towards which economic reforms are directed.

A scientific analysis of domestic and foreign experience shows that it is not vertical, but horizontal ties which are becoming the basis for interaction between science and production, supplier and customer and related enterprises solving common tasks. This is why increases in enterprise independence and development of their initiative should march in step with the democratization of management, sharp reductions in the administrative forms' sphere of action and the overcoming of narrow sectoral constraints.

Solutions to these key organizational tasks, the search for new forms for managing the basic links are now based upon the Law on Enterprises and the legal basis it has created for diverse joint activities by enterprise to achieve common goals. Of interest in this regard is the Estonian experiment to form an intersectoral complex combining the entire cycle "supply-design-production-trade" for light industry goods. The intersectoral industrial-trade complex includes: 22 production associations and enterprises in light industry; 14 firm stores, the republic bases for wholesale trade in fabrics, clothing and footwear, transferred from the Estonian SSR Ministry of Trade, and experimental design-construction enterprises. The Estonian SSR Ministry of Light Industry is entrusted with supplying raw materials to associations, enterprises and organizations located in the republic, independently of their departmental subordination. Estlegpromsyrye, [Estonian Light Industry Raw Materials] an organization on cost accounting, has been set up to perform these functions.

New forms of management based upon deepening intersectoral ties are also arising in the agrarian sector. Life itself and real interests reject the huge vertical management structures in the agro-industrial complex. New type agro-industrial associations are being created ("Kuban," "Novomoskovskoye," "Yefremovskoye" and others) provide, directly at the basic link, an organic unity to all elements of the sequence from the producer to the consumer—kolkhozes, sovkhozes, processing and service enterprises, construction, trade and transportation organizations.

Recently there has been news about the creation, based upon the Shchapovo Experimental Farm near Moscow, of a new way to combine the efforts by groups of enterprises and organizations with differing profiles. The consortium includes the Moscow Oblast Administration of Agroprombank, the Institute of Animal Husbandry, the Agrostroy and Zveroprom Associations, the Mostrasstroy Construction Trust and the Vneshtekhnika All-Union Association. Making their contribution to solving the common task, a sharp increase in production, all participants have the right to a share in final results and to expand upon their potentials through this new form of organizational-economic cooperation. Genuinely democratic forms of management are being introduced. The consortium is managed by a council made up of managers from participating organizations. The council compiles and approves a long term program, elects a

chairman and director. The income remaining after payments to the budget and the formation of common funds is distributed among the participants proportionally to the resources they contribute.

Objective tendencies in production development and the ensuing new organizational forms and management methods are making their way step by step. However, as stated at the 19th All-Union Party Conference, life requires more decisive measures to improve the management of scientific and technical progress and to overcome departmental barriers. **Intersectoral associations are among these new organizational forms.**

Such new type organizations are now being created in Leningrad. Their formation is a basically new step in organizing the management of socialist production. Just what are these first intersectoral state associations, referred to as MGO? How are they structured. Who will manage them and how? How will they interact with their surroundings?

The Energomash MGO combines enterprises and organizations producing different products, but with similar technological ties and final goals. It is an interconnected system capable of designing and producing high capacity power engineering equipment of all types, boilers (reactors), turbines, generators and control systems. It can work under conditions in the new economic mechanism and jointly solve tasks in the comprehensive outfitting of other sectors. This creates the real possibility of delivering full sets of equipment, providing high quality supervision, installation and services to equipment directly at fuel and energy facilities.

The main goal of Tekhnokhim, the other Leningrad MGO, is the development and use of technology for producing chemical products, supporting the creation of a broad range of new structural materials and saving material resources in large amounts.

As new type organizational structures Energomash and Tekhnokhim have many common features. First, enterprises and organizations enter these complexes voluntarily, based upon decisions made by their labor collectives. This also requires a democratic form of joint management for the complex through elected organs appropriate to the nature of general public property. Second, enterprises and organizations in an MGO retain their economic independence and operate on full cost accounting and self-financing. In their interactions they observe the principles of economic interest and cost accounting relations between them. Third, enterprises and organizations are removed from direct subordination to their ministries and associations in order to solve common scientific, technical, production and social tasks upon which they concentrate intellectual, material and financial resources in agreed upon scales.

From this it follows that the organizational-economic mechanism for MGO functioning must be structured so that all production, scientific research, design and other units operate in complete accordance with the USSR Law on State Enterprises (Associations). Each should retain the status of a legal person and the right to own fixed and circulating capital. Associations and enterprises carry out their production, economic and financial activities on the basis of five-year and annual plans for production, scientific and technical development, major construction, material-technical supply, etc, which they have compiled and approved. They have direct ties with suppliers, customers, material-technical supply organs and relevant planning, economic, scientific and design organizations.

The managers of production associations and enterprises in the MGO should bear full responsibility for the quantitative and qualitative satisfaction of the national economy's demand for the MGO's products and services provided on the basis of state orders and contractual obligations and for the attainment of high final results. General MGO management will be democratic, based upon a board which elects a chairman. This board is elected by a council of labor collective chairmen—the highest governing organ in the MGO. The board makes all its decisions on a unanimous basis. A minimal sized apparatus is set up at the board. The board's activities should be based on the work of scientific, design, foreign trade, supply-sales and other specialized organizations in the MGO in the most important scientific-technical and production economic directions. Maintaining their cost accounting status, these organizations should be in charge of MGO functions as a whole. If it is deemed advisable, a commercial bank can be set up within the MGO.

An MGO should have the possibility of directly interacting with appropriate services in Gosplan, Gosstat, other central economic agencies and local organs. This concerns the compilation of control figures, state orders, economic normatives and limits and their assignment directly to the MGO, the delivery of materials for filling state orders and contractual obligations, support for major construction, work on standardizing and certifying products and organizing foreign economic ties.

Perestroika is demolishing many old stereotypes and forcing us to think about things differently. If, for example, we were to put an intersectoral state association into the our usual structural schemes, then it would naturally be necessary to subordinate it to a superior organ and make provisions for an apparatus to manage lower levels, everything being structured "from the top down." In actuality, an intersectoral state association is a form of management "from the bottom up" which, completely retaining and legally protecting enterprises' economic management independence, combines them to jointly solve large common tasks that would be beyond the capabilities of an individual enterprise.

The law on enterprises clearly and unequivocally returns to labor collectives the rights of a legal person concerning socialist property. They, the labor collectives, and only they, can and should dispose of resources, assure their efficient use and grant power to their organizations and officials. They transfer power and resources "upward" to concentrate efforts on technological breakthroughs in high priority directions, on the joint construction of a new plant or expanding, in the common interest, existing capacity.

Some workers still cannot get accustomed to MGOs not being subordinate to a sectoral ministry. The main reason for this is uncertainty about whom an MGO should be responsible to concerning the main questions in its functioning and development. These workers repeatedly ask: How can it be subordinate to "nobody." By their logic to be subordinate to a ministry bureaucrat is to be subordinate to "somebody." But to be subordinate to the genuine owner of the means of production, the labor collective, the legal owner of socialist property, is to be subordinate to "nobody."

Differences in production conditions also cause diversity in organization. Modern tendencies in the development of productive forces are forcing and will increasingly continue to force us to see that the sectoral system of management is not the only one, that an entire range of mechanisms and tools for economic management activity cannot be squeezed into a procrustean bed and that there is not just one, but many ways to attain good final results. The principle of socialist diversity is becoming a vital necessity for the development of organizational forms responsive to the requirements of production intensification and efficiency.

One can boldly predict that the formation of intersectoral organizations will occupy an important place in the development of public production. The criteria for their creation should be: unity, the multichannel use of raw materials; closely linked technological chains; the complete manufacture, delivery and servicing of the final product; work in the major directions of scientific and technical progress. Equally important are factors of territorial commonality and unified production and social infrastructure. Intersectoral management requires the realization of large scale production, scientific-technical and social-economic programs. In each case questions concerning forms of organizational integration should be solved with a view to common tasks, sectoral specifics, scientific-technical progress, resources, the nature and scale of output and the satisfaction of customer demand.

The scale of and MGO can be all-union, regional or international. Depending upon the agreement of participants, an organization can be allowed to exist on a permanent basis, or to function for a contractually agreed upon period.

In the fuel and energy complex it has long been time to make the transition to intersectoral management. The separation of the gas industry from petroleum extraction reduced the specialization at unified petroleum and gas

operations because the drilling, extracting and field outfitting were separated. Experience shows that the separation of petroleum and gas production had a negative effect upon operations at petroleum and gas fields, as it is only rarely that gas is found independently of petroleum. In many cases these hydrocarbons are not only extracted from the same field, but from the same well. If this well is on petroleum workers' balance sheet, then huge volumes of gas are burned, while if it is in the gas system, it inevitably leads to large losses of petroleum.

It is quite obvious that the organizational association of lower link petroleum and gas field developers will assure unity in extracting petroleum and gas. This could involve the formation of intersectoral petroleum and gas extracting associations operating in certain regions and bearing full responsibility for the comprehensive, thorough and effective use of fields' resources.

In recent years there have been well known attempts to make a new approach to planning and managing the rational use of the very rich mineral resources on the Kola Peninsula. The formation of an Interdepartmental Territorial Commission at USSR Gosplan for this purpose has done something to promote the coordination of efforts by a group of ministries, each of which is handling its own tasks on the peninsula. However, there have been no serious advances. The region's minerals and raw materials are being developed in a fragmented, noncomprehensive and uneconomical manner. Integrating solid mineral exploration, extracting and processing into a single economic complex could lead to the formation of a Kola Intersectoral State Association including enterprises and associations previously subordinate to various mining and industrial ministries.

It is obviously becoming advisable to form an intersectoral association to radically improve forest resource use. Departmentalism and localism cause people and material resources to be wasted and inefficiencies in producing and using a broad assortment of products. It is in the interests of this matter to have the unified comprehensive management of all enterprises involved with forestry, logging and wood processing in a given territory, independently of their departmental subordination. The functioning of intersectoral associations in the country's forestry would bring order and coordination to an entire complex of work in reforestation and forest protection, production and environmental protection and would make this work economically competitive.

A question may arise in connection with the formation of large intersectoral associations: Won't this create a monopoly for the producers of some products? Won't it eliminate competitiveness in meeting customer demand and, consequently, lead to low quality products?

To prevent this it is important to see that a given product is produced by several enterprises. State orders could create competition. The organization of multichannel trade in material-technical resources, the assertion of



customers' rights and the real possibility of choosing suppliers are also very important. It is advisable to expand competition in financing and credit allocation, including resources for expanding production in a competitive system, strengthen differentiation in credit allocation, depending upon results from economic activities. There should be no place for direct and hidden subsidies to producers. During the reforms in price formation monopolistic producers' prices must be prevented.

The existing sectoral forms of management are deep rooted, with a multitude of supports and defence mechanisms. Consequently they have greater stability and adaptability than do the still young and fragile intersectoral organizational structures. By grabbing on to shortcomings, objective difficulties and oversights in their first steps, it is easy to "prove" the inefficiency of MGO, to discredit them and, at the appropriate time eliminate them. Intersectoral formations meeting modern demands in production development need protection, support and "nurturing" like seedlings from which strong healthy trees will grow.

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### **Economists Discuss Reforms, 'Bureaucratic Revenge'**

#### **Selyunin Urges Change From Below**

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[Article by Vasily Selyunin: "In-Depth Reform or Bureaucratic Revenge?"]

[Text] In July 1979 a decree came out with such a long and fancy name that it was perhaps even impossible to pronounce it without taking a breath. In the business world for the sake of brevity it was called the 695th Decree and sometimes the 695th Mechanism, since the directive sketched the economic mechanism which was to be introduced into the practice of management. This document could appear only in an atmosphere saturated with dense effluvia. This was, if not in exactly two words, the peak of the counterreform to the residuals of the economic reforms were begun in 1965 and soon successfully defeated.

It is easy to see with hindsight how thinking economists (thinking about the destiny of the country and not just about their own careers) immediately understood that this mechanism did not promise anything good. Your humble servant at that time did an analysis of this bureaucratic opus for his own use—it ended up as a manuscript of 100 typewritten pages. I was unsuccessful in getting my friends to read it so it ended up in Samizdat and was sold on the black book market. Incidentally there were no sanctions against this, but there was also no point in thinking about publishing the manuscript. At that time the press, without

regard for the consequences, was extolling the 695th Decree, looking for more and more beauty and stupendous profundities of thought in it. At that time I was working as an economic observer in a large central newspaper and could do only one thing—not right panegyrics to the stillborn child of the administrative system. Such position to some extent gratified my ego and had no effect on life.

The obviously futile attempts to force the economy into some depressing management schema lasted for almost 4 years and if today we say that there is no time to stir up the restructuring, that the supply of time has been exhausted, that it was uselessly squandered in the past, when out of fairness we must also include these four lost years in the past. Regardless of where we may be today, we begin the changes at that time...after Brezhnev's death the "695th Mechanism" died a quiet death of its own accord, and now only its authors are accustomed to praising the indicator of normative net output and certain other particulars from this decree that has been abolished by life.

This episode from recent history clearly shows a connection...no, not even a connection, but the indissoluble unity of two aspects of restructuring—openness and profound economic reforms. It is a unity if only because to develop the necessary economic mechanism is conceivable only in the situation of free discussion of its meaning and peculiarities. And again freedom is necessary so that people can keep abreast of life at every step—wherever we go, whatever we do, whenever it is time to make adjustments.

The events are developing rapidly and I think the time has come to discuss these issues. Restructuring has turned out to be more complicated than was anticipated. Initially it was regarded as the first stage of acceleration: they would say we shall conduct economic reforms, change the methods of managing the economy, and after that would begin the acceleration itself, that is, more rapid development of the economy.

Perhaps one could say that this concept was based on a simple calculation that was published by Academician A. G. Aganbegyan and immediately became famous. Here it is in current figures. In a year we use approximately 600 billion rubles' worth of national income. Three-fourths of this amount goes for consumption (more simply, for living) and one-fourth—for accumulation. With an increase in income of 1 percent per year the additional amount will be 6 billion rubles. So the consumption fund will increase by 4.5 billion. In this case the per capita consumption of goods, however, will remain at the previous level—for the population is also growing. In order to live better it is necessary to obtain more significant increases. The second and third percentage points of increase in income will go more for filling in the holes, of which there are plenty in a large economy—it would be desirable, for example, to raise



the minimum pensions. For an appreciable rise in the standard of living the country's overall income would have to be increased by 4 or even better by 5 percent annually.

This discussion was subsequently repeated over and over again by economists and politicians. The academician's simple computations made an overwhelming impression on me personally. For what will happen? Now the annual increase in income is about 3 percent, and in good years—up to 4 percent. Let us say that as a result of restructuring we "wring out" 5 percent in the future. By that time it will be more significant but still, as simple calculations show, the monetary increase will be about 1.5 rubles per month per person with independent income. Recently the average monthly earnings of workers and employees have been increasing by approximately 5 rubles a year, and under the conditions of the acceleration they could be raised by 6.5 rubles. Not a radiant future, right? We will hardly invest much in work for the sake of such a goal.

Common sense suggests that something is not right here. Regardless of how you figure it—either by generally accepted methods or by more cautious methods—through the work of generations we have created a powerful economy, the second or at least the third most powerful in the world. But it turns out that even in the future, with the high speed of development, it is not capable of providing for an appreciable rise in the people's standard of living. But that cannot be!

To begin with let us raise a simple question: is acceleration of development really the only source of improvement of well-being? After all it is also possible to act in a different way: to "eat up" more of the income that is produced and use less for accumulation. At first glance the reserves here are not great. One-fourth of the national income goes to accumulation—by the standards of developed countries this is quite a bit, but it is still not a monstrous amount. But where did this figure come from? Our wonderful statistics measure the consumption fund and the accumulation fund in different kinds of rubles—in one case the value of the goods is calculated in retail prices, and in the other—in wholesale prices. This is the same thing as using a rubber tape measure. The difference between the two kinds of prices falls mainly in the so-called turnover tax. And in 1985 it amounted to 97.7 billion rubles, and 1986—91.5 billion. By excluding these sums from the calculations we become convinced: when measuring in wholesale prices the consumption fund in the utilized national income is equal to 68-69 percent.

It further becomes clear that wholesale rubles are not all the same. In 1986 from each ruble of production capital light industry workers "took" 23.5 kopecks in profit and, for example, in electric energy—only 6.6 kopecks. I will never believe that with year-round operation of electric power stations their personnel (highly skilled people) work barely one-fourth as effectively as sewing workers and footwear workers. The profitability of all heavy

industry is half as much as that of light industry. There can only be one explanation: wholesale prices for light industry products are higher than prices for heavy industry items.

It would be useful to look further into which goods delivered by heavy industry are especially profitable. Here it is the timber branch. It is thought that a logger works 7 hours a day (they have a 6-day work week). But if one takes into account the time on the road to the section and back (and this is frequently hundreds of kilometers) the person is actually occupied for 10 or even 12 hours a day. He works in difficult conditions: it is freezing in the winter and he is up to his waist in dirt in the autumn and spring. The logger works with a great natural polymer—wood, which is stored up by nature herself. It would seem that with this kind of apportionment timber procurements should be very profitable. But in fact they are not profitable anywhere and sometimes they even bring losses. But let us say that the logger has moved on to a furniture factory where it is warm, light, and the flies do not bite you—his labor immediately begins to produce a large profit.

How is this? Well, it is all very simple: low wholesale prices have been established for timber and, conversely, high ones have been set for furniture. But timber is a product for production purposes, and furniture is a consumer good. Prices are stratified in a similar way in many other branches of heavy industry. And this means that in the official calculations they increase the share of the consumption fund calculated not only in retail prices but also in wholesale prices.

There are also other distortions in the figures. If one measures both parts of the utilized national income in prices of one level (and how else should it be?) the consumption fund swallows up certainly not a fourth but a much larger share of the income. It is precisely the move in the direction of consumption and not the mandatory inflation of growth rates that holds the major reserves for raising the standard of living.

Yet official science orients our minds toward rates. Acceleration is understood as increasing the speeds of development of the economy: they say that during a period of stagnation the increase in income dropped below 3 percent per year, this is not enough, we are bleeding, but give us more—then we will begin to live better. Will we? Where did the scientists get the idea that all we have to do is raise the income by another percentage point and there will be additional billions in our common pocket for private consumption? It is not a situation in which we gather up the income for a year and then divide it up into two piles—this we will eat up and this we will put away for the construction of enterprises, housing, gardens, in a word, for accumulation. In life national income is being created each minute and it is being expended each minute. Money is only a symbolic depiction of physical goods, and if behind the cost increases there are machine tools, combines and rockets,

these cannot go for personal consumption. The great untruth about abstract scientific calculation is that it ignores the substantial, physical content of newly created value.

This cannot be done. For many decades the proportion of objects of consumption in the overall output of products has been steadily increasing. Let us limit our calculations to industry. In 1928 60.5 percent of all products were consumer goods (Group B). In 1940 this proportion had dropped to 39 percent. All right, that was the calm before the storm and we were tightening our belts. But how do we explain the subsequent development of events: by 1980 the proportion of Group B had dropped to 26.2 percent? In 1981-1985 industrial production increased by an average of 3.7 percent per year. This figure was formed from 3.6 percent in Group A and 3.9 percent in Group B. In 1986 the overall rate increased to 4.9 percent, including an increase in Group A of 5.3 percent, and Group B—3.9 percent. As we can see, all the acceleration was achieved as a result of the production of means of production, and the rate did not increase at all in the production of consumer goods. And compared to the immediately preceding years it even declined: in 1983-1985 the increases in Group B amounted to 4.3-4.1 percent annually as against 3.9 percent in 1986.

As a result there was a further reduction of the share of Group B in the overall volume of production—from 26.2 percent in 1980 to 24.7 percent in 1986. If the ratio between Group A and Group B remained at the 1980 level, in 1986 industry would have produced 12.6 billion rubles' worth of consumer goods more than were actually produced. (I point out for comparison: the overall increase in the consumption fund created by the entire economy and expended not only for personal consumption amounted to only 9.2 billion rubles in 1986.) And if one calculates according to the prewar "norm" (1940) the shortage of consumer goods as a result of the reduction of the proportion of Group B is equal to almost 120 billion rubles or about 425 rubles per capita. This is in wholesale prices. In retail prices the losses are much more.

The colossal, truly tectonic advancement in the direction of means of production (in the direction of the first subdivision) have led us into a paradoxical situation in which acceleration of the rates of development and the more rapid growth of the national income have little influence on the standard of living. To an ever greater degree the economy is working not for man but for itself. With today's structure it is indefatigably reproducing a proportion between the first and second subdivisions of public production that is quite unacceptable for peacetime, and it is being reproduced in its worst variant: in each subsequent cycle the proportion of consumer goods is less than in the preceding one.

This danger has not yet been recognized. The strategic design of the current five-year plan consists in reequipping machinebuilding—then in the last periods this

updated and reinforced branch will begin to provide sufficient modern implements of labor for the entire national economy. It is clear that the race in machinebuilding will require advancement of the raw material and base branches, which has also been planned. But this is only the first step in development, which is again oriented toward the production of means of production. Others will inevitably follow. Let us construct a simple economic model. Let us say that a machinebuilding plant is capable of annually manufacturing equipment for two enterprises and it makes no difference which branches. In 10 years it will equip 20 new construction projects. In the 11th year, however, the picture will change: the equipment will be outdated at the first and second enterprises and our supplier will be obliged to replace it. Next will come the third and fourth enterprises.... Now the manufacturer of equipment is eternally bound to 20 plants created with his help. And if we add one more new construction project first it is necessary to create new capacities in machinebuilding. This again will require rental, energy, and raw material—machinebuilding is giving new orders to its associates. And so on ad infinitum.

The front of capital investments has grown beyond all measure. We now have no less than 350 construction projects for production purposes. The resources are spread out—for one object, for example, there is an average of no more than 12 construction workers. It is unthinkable to complete such a quantity of construction projects within a reasonable period of time, and with the chronic shortage of capacities it is necessary to keep outdated enterprises in operation. As a result, fixed production capital increases endlessly. Under the current five-year plan it was necessary to resort to an extreme measure—for the first time in a long period of time the proportion of accumulations in the national income was increased. But no means are enough to maintain existing production in normal condition and at the same time construct new ones. According to data of economists who have mastered accounting, the introduction of capacities now barely covers the open and concealed removal of them because of aging. In other words, the inflated accumulation fund is no longer accumulating wealth.

One can, of course, dispute the calculations given above concerning the proportion of national income that actually goes for accumulation. But specialists from the Economics Institute of the USSR Gosplan have made similar calculations by quite different methods—ones that are generally accepted throughout the world. For them it turned out that in 1985 the proportion of investments in the gross national product in the USSR was more than in the United States by a factor of 1.7 and more than in Western Europe by a factor of 1.5. But the effectiveness of investments in our country is half as great as it is, for example, in the United States. The unprecedented freezing of capital in incomplete construction and the growing expenditures on repair and restoration of outdated production capital must be compensated for by pumping up capital investments.

Under these conditions the shortage of implements and objects of labor can only be aggravated. Our country has greatly surpassed all the others in the production of metal, tractors and combines, the extraction of fuel, the size of the machine tool fleet—one cannot list all the things—but nonetheless there is a shortage of this and of that. Where is the limit to this unrestrained growth? In commercial economics there is a natural limitation—the effective demand. Production does not have the slightest value there if there is no consumer for the commodity. In this sense even crises of overproduction are not without usefulness, they serve as a signal that with the level of consumption that has been reached one cannot increase the output of products. Abolishing the market removes this impediment. But if there are no more restrictions in terms of demand, what limits the development of the economy: only available resources, and nothing else.

And they are being exhausted in an irregular way. Our labor resources were first to be used up—from now on there are no additions to the work force. Actually, one of the main purposes of acceleration is to compensate for the shortage of workers by increasing labor productivity. Hence, incidentally, also the priority given to machine-building: new technical equipment increases productivity which in turn gives a new impetus to economic growth. It is not far to this goal. But let us assume that it has been achieved. Then will everything be in order? Hardly. With more productive labor the economy, deprived of impediments, will begin with new force to grind up other resources, including those that cannot be restored.

This is not a conjecture but a conclusion from practice. It is now fashionable to complain about the period of stagnation. But in the basic and raw material branches there has been no stagnation. Let us turn to the energy balances of the national economy. In these all energy resources (fuel, electricity from hydraulic and atomic electric power stations) have been reduced to a common denominator—tons of conventional fuel. During 1951-1970 the average annual supply increased by 51 million tons, and in 1971-1985—by 69 million. In 1984 we used more than a billion tons more energy bearers than we did in 1970. This increase alone is almost equal to the entire production of energy resources in 1965. During the same 15 years we extracted approximately as much fuel from the earth as we did during the entire preceding history of the country. If this is stagnation, then what is rapid growth?

I had occasion to travel through Western Siberia when they were beginning to extract petroleum from virgin land there. It seemed at that time that the supplies would be sufficient for our grandchildren and great-grandchildren. But, putting the petroleum sheiks to shame, we contrived to exhaust this natural treasurehouse during the life of one generation. In 1960 we extracted less than 150 million tons of petroleum while now, including condensate, we extract more than 600 million tons annually, and still there is not enough fuel—sometimes

the aircraft cannot fly and the trucks cannot run. The extraction of gas is increasing even more rapidly—on the horizon we can see the extraction of a trillion cubic meters a year. People who understand honestly warn: "Will this 'hasty' trillion not be an alarm signal in the economy?" (PRAVDA, 17 November 1987). It might, oh, it might! Now, however you look at it, the repaired economic mechanism needs breaks as well—otherwise we shall leave a desert behind us, and you will not be able to leave the fruits of your labors to your descendants. An economy that consumes itself will hardly condescend at any time to man, to our needs.

We are approaching that limit beyond which high rates with the existing structure of the branches will be generally impossible. Yes, for the time being reliance on machine building has led to more rapid growth of the national income. But let us look more attentively not at the value indicators but at the physical indicators of acceleration. According to statistical references it is easy to juxtapose the quantity of tractors and combines on the kolkhozes and sovkhozes to the number of machine operators. If the figures coincided this would be economic dissipation. Indeed, during its life the combine harvests seven or eight crops, that is, it works for a maximum of a half-year. What would happen if during the harvest it was used on one, very long shift? It would be just as extravagant to give each machine operator his personal tractor. In reality the situation is even worse: in 1986 452,000 tractors and combines were "ownerless," they were not staffed with personnel.

Do not think that obsolete equipment was thrown in: the average service life of the tractor was 7 years and a combine—7.5 years. A foreign farmer would not allow these time periods for updating his equipment. And at the same time the output of combines is increasing, while now the kolkhozes and sovkhozes are refusing to purchase at least three out of every 10 new machines. And this is under conditions where the buyer pays less than half price for the combine—the rest is paid to the manufacturer out of the treasury. The powerful Don is sold for less than the light Volga but it still turns out that it is not needed. Hundreds of thousands of tractors stand idle, and the joke is that they plan to construct an immense tractor plant in Yelabug.

Anyone who is not convinced by individual examples we advise to go to the calculations which were published recently by the well-known economist I. Malygin. According to his computations, 45 percent of the jobs in the basic shops of machinebuilding plants are superfluous and there are no workers for them. In the main shops throughout industry more than one-fourth of the positions are like this. It is known that the value of uninstalled equipment amounts to many billions of rubles. Supplies of commodity and material values in the national economy are approaching a trillion and a half rubles, and in certain years the additions to the national income have not even covered the growth of the material supplies.



This is interpreted for us: it is necessary to reduce expenditure of resources per unit of output, to reduce the weight of machines, and to produce better items. But I assume that in the existing situation to inflate the volume of productions means to waste even more energetically labor, raw material, fuel and other wealth.

The acceleration that has been achieved is illusory. Surplus, unutilized machines and equipment, of course, are subtracted from the national income as they should be. But since these goods, unlike raw material, are expensive the rate of development has increased sharply over a short period of time. Yet, for example, the "ownerless" tractors and combines that were mentioned do not create new products and so they do not create national income because they are not operating. In order to maintain the rates, in the next year it will be necessary to produce even more machines for the books, which again will not produce products. When there is no natural growth the economy has to be pushed and urged on. In vain! An overburdened horse will not gallop up a mountain.

There is one more major reason why acceleration is falling flat. With an increase in the nominal expenditures and a simultaneous reduction of the proportion of production consumer goods in the overall volume of production, there is a rapid increase in monetary savings—payments for which there are no goods. Deposits in savings banks by the beginning of 1988 had amounted to 260 billion rubles. We do not know how much is stored in people's stockings, but, undoubtedly, the overall sum of savings is close to the annual monetary income of the population if it has not exceeded it.

This literally clips the wings of the restructuring. For anyone who does not understand I shall explain. It is necessary to pay a great deal for good work but what do you pay when there are no goods to buy with the money that is given out? In its day the famous Shchekino method came across this stumbling block. The essence is simple: where, for instance, four people used to work, they now have three and they divide up the earnings of the released worker among themselves. The additional wages more than compensate for the output of additional products for each worker. But what products? The Shchekino Combine, for example, produces fertilizers, and almost none of them are sold to the population. Rubles have been given out and quite different products are demanded for them, but their output has not been increased. The State Committee for Labor at that time could do nothing to put a stop to the uncontrolled growth of wages among the followers of the Shchekino initiative. An excellent innovation was destroyed.

In order for this not to happen with the restructuring it is necessary to make profound structural changes in the economy: it must be turned away from work for itself toward man and his needs. Man is the final goal of the economy, the sun around which it should evolve.

The long-awaited structural rearrangement is incompatible with inflated rates. Reducing the output of superfluous means of production which are not used will already lead to a reduction of the total increases (but simultaneously—to a savings on resources; I think that we should not worry about reaching the marks of the current five-year plan either—we shall simply consider that we have saved resources instead of wasting them on producing something that is unnecessary). Calculations show further that a turn in the direction of producing consumer goods will take a fairly long period of time during the course of which the overall rate of development will be minimal and possibly minus. But there is no other solution. There is either acceleration, understood as inflating the volumes of production, or restructuring of the economy. There is no third way, so it will be necessary to choose one or the other.

The reader has undoubtedly noted that these conclusions oppose the recommendations of official science. Scientists who count advise accelerating the development of the national economy but it would be more correct to consider that a reduction of rates for the sake of structural changes is inevitable and even desirable and that preference should be given to the production of consumer goods. Under the current five-year plan the proportion of accumulation in the utilized national income is great and, in our opinion, it was excessive to begin with. I understand that these ideas will cause protest from the right, from the left, from above, from below, and from all sides. We are all accustomed to taking pride in our high rates, our crisis-free, unlimited development of the economy, our flesh and blood has absorbed the conviction that production of means of production should unconditionally be given priority—and suddenly all of these apparent axioms are called into question. But they are called into question not by me, but by the grandeur of life. So let us obey life and not schemas.

I made the presumption about the inevitable retardation of the rates without having the statistical report for 1987. Now I have it. Unfortunately, my prediction was confirmed. The increase in national income in 1987 was only 2.3 percent (a year before it was 4.1 percent) and industrial production increased by 3.8 percent as compared to 4.9 percent in the preceding year. Of course I am not gratified by being right but there is no reason to panic: the rates are still not everything, the economy has more significant parameters.

Beginning in 1983 the acceleration was achieved as a result of the utilization of the closest reserves. At first imposing elementary discipline and order in production was a good thing. Then the battle against drunkenness had a positive effect on the rates of development (a considerable and quite realistic achievement of the period of restructuring! Every glass that is not drunk is good in and of itself). But factors like this can be used only once.



What next? Let us give the simplest calculation. The annual supply of work time of a worker is about 2,000 hours. It is easy to understand that one-one hundredth of the annual result is produced in 20 hours. In order to provide for an annual increase of 4 percent it is necessary somehow to squeeze out 80 hours of working time. In other words, in 1,920 hours the worker must produce as many products or income as were obtained during the entire preceding year—then he will work the remaining 80 hours for increase. This was achieved in large measure because of the aforementioned one-time factors.

But since we have skimmed off the reserves lying on the surface, how can we continue to maintain the high rate? What other reserve do we have at our disposal? Although the corresponding data are not yet being published, from observations from life I daresay: in 1986-1987 the additional production was largely explained by ordinary overtime work, that is, work after hours. "Black Saturdays" have become a part of our life. And from the calculation just given it is clear that all we have to do is make 10 Saturdays a year work Saturdays and we will obtain the additional 80 hours required for a good increase. But then in order to maintain the rates the next year it will be necessary to work 10 more extra Saturdays, giving a total of 20. This cannot go on for long—the hourly output will decline, since it is difficult for a worker to restore his energy without normal rest. And in general overtime work is not our social policy.

It is necessary to include permanent factors in the highly productive labor—economic interests, internal urges for profitable and high-quality work. This is the goal pursued by the economic reforms that have been started in the country. At the January and July (1987) plenums of the CPSU Central Committee they earmarked the contours of the new economic mechanism. In the state sector we will have to introduce five large-scale innovations—having done this we will be able to say that there has been a radical reform.

The first—planning production from below, from the orders of the consumers, as is the case in economies of the world that are working well. If a plant needs one product or another he finds the person who manufactures it and concludes an agreement. The sum of agreements (portfolio of orders) becomes the production program and no other plan is needed. From the orders that have been accepted in physical terms one simply and logically derives the cost, labor and other generalizing indicators. Multiply the price by the number of items, total it up for all the orders and you receive the earnings. Subtract the production cost from the value and you have the figure of the future profit. Divide it by the value of fixed capital and you have the level of profitability. And so forth. This means that not only the physical products but also the generalizing indicators can be planned without interference from above.

It is specifically indicated in the agreements for whom the product is intended. Consequently, there is no longer a

need to divide it up among the consumers from above. In economic jargon this is called a changeover from distribution of products according to funds to free wholesale trade. This is the second innovation.

Third—self-financing or, the same thing, complete cost accounting. Cost accounting is when the income is greater than the expenditures. Up to this point when making comparisons we have taken into account current production expenditures but now we are taking into account expenditures on expanded reproduction. To put it simply, the treasury will no longer allot money for the construction of new shops or the updating of equipment—the collective must earn this money for itself.

Fourth—wholesale prices for products are basically not assigned but are established by agreement between the manufacturer and the consumer.

Finally, the fifth—what will the worker have from all of these innovations? After you have settled with the treasury for paid resources and paid the tax for general needs—the rest is yours, you decide for yourselves in the collective what to do with it. There is freedom of choice here and in the future it will be limited, but not by prohibitions but by objective conditions. Since production is not halted, the first thing will be to augment the reimbursement fund. Subsequently, if you have gotten greedy and not allotted funds for development and renewal of production—within a few months, perhaps, they will no longer purchase your expensive and outdated products at all. Then you will have nothing from which to earn wages. Thus it is necessary to grant the collectives independence in utilizing cost accounting income.

This method is not somebody's fantasy. All five of the fundamental principles are directly named in the new "Law on the State Enterprises (Associations)" adopted in June 1987. It is too bad, however, that these excellent rules have stipulations which abolish or at least limit their effect.

Naturally, the law cannot work at all without radical changes in the sphere of economic management. Therefore subsequently they adopted an entire package of decrees concerning restructuring of economic departments (Gosplan, Gosstat, Ministry of Finance, State Committee for Prices and others) and also ministries. Together with the Law on the Enterprise these documents comprise the new economic mechanism. In January 1988 it was introduced at enterprises that produce 60 percent of all the industrial output.

Understandably, it would be better to wait with the evaluations until the first results of the new way of operation are in, but we do not have time to wait—we have already wasted too much of it. Incidentally, it is sufficient to analyze the text of the new economic rules to predict that they will not produce any special effect.

First of all we are not discovering any essential changes in planning. Of course, in the spirit of the times, in the documents a good deal is said about the independence of enterprises in drawing up production programs and the orders from consumers as the basis of the plan. But right away they introduce the institution of state orders that are mandatory for the performance of the work. Generally speaking it is impossible to do without state orders. The fine point, however, is that under the directive policy they should plan products required not by the cost-accounting enterprises but only by the budget organizations (schools, hospitals, armies and so forth).

In fact, say, a plant and a vocational and technical school are claiming the same product. The plant will add to the price and take it while the school, whose funds are strictly limited, will be left with nothing. It is also possible to trade here—let the budget institution find someone who will fulfill its order under acceptable conditions. And if they do not find one and do not make a deal then the agreement becomes an order. In this case the state could in one way or another make up for losses caused by the performer of the work. Economists calculated long ago that at first it is sufficient to include under mandatory orders approximately one-fourth of the capacities of industry and subsequently their proportion in the program will become even less.

But this proportion is not stipulated in the new rules and in the majority of enterprises almost the entire program assigned for 1988 consists of state orders. It turns out that production in physical terms is planned the way it was planned from above. If in some places there is some small reserve for "free" products, I am ready to put up a bottle of cognac against a bottle of mineral water: within a year or two not a single square meter of plant area will remain for filling contractual orders.

That has already happened. According to the conditions of the 1965 reform the product was also divided into two categories: the most important list was planned directly and the secondary list—according to direct agreements. And here, for instance, for a new electric power station they manufactured turbines, generators, transformers, in a word, everything that was important, and the "secondary" instruments, without which the object could not be put into operation, were not made. The following is clear: we cannot allow this in the future; instruments must also be raised to the rank of the most important products list.

That is the way it happened, and that is the way it will happen again, the more so since the enterprises themselves are not terribly interested in independently drawing up the program. Let us recall the story of the surplus combines. Now compel the combine builders to look independently for a consumer and they would probably not even load half of the plant capacities. Is it bad for them when the Gosagroprom issues a gigantic mandatory order all at once, for the entire year? What will they do with the unneeded machines? But this does not affect

the manufacturer, if they have ordered them they must pay for them. The agroprom staff does not earn the money itself. It can apply pressure to the kolkhozes and sovkhozes: pay for the technical equipment, do not send it back to be melted down. If the consumer has no money he is automatically given credit. Soon this will be a debt without return—sooner or later it will be written off. And this is also correct: after all, the unnecessary goods were literally imposed on the purchaser. In a word, everyone is right and only the treasury has to suffer.

When production in physical terms is strictly set from above, all the generalizing indicators of the plan are thus predetermined. If you cannot put up with this, the sphere of management even under the new conditions will assign to the enterprise (and already is doing this!) control figures for the volume of production in rubles, for profit, labor productivity, and for four other indicators. Of course it is stipulated that these figures are not supposed to be directive. But my fantasy is not big enough to imagine such a picture: according to its own variant of the plan, the plant has not reached the control figures but the home ministry and the local authorities have reconciled themselves to this. That is not the way it happens in life.

Why was the previous policy for planning still retained? Write the truth, the whole truth and nothing but the truth. One would think that in developing the reform there is no complete determination of how far we are prepared to go in the restructuring. In Article 2 of the Law on the State Enterprise it said: the instrument for realizing the economic policy of the Communist Party and the Soviet state. But the state plan is not a wish but a law, that is, it is an ordered, administrative device for management of the economy. If it serves as the most important instrument, what is the role of economic methods of influencing production which are supposed to be given preference? The first of these competing principles was determined in the package of decrees. We have already discussed the production of surplus products, the dispersion of resources among an infinite number of construction projects, and distortions of economic proportions. All this, as we know, has been done according to the plan. But if planned management is our most important advantage, one automatically gets the idea: this means that the planners are doing a poor job of utilizing it and they are unsuitable workers. But I have known many of them for many years and I can bear witness: perhaps the majority of them are first-class experts in their work and concrete economics holds no mysteries for them.

We should be a little more cautious in our judgments about advantages. In the work entitled "Economic Problems of Socialism in the USSR" Stalin explained, for example, that foreign monopolists buy up inventions and hide them (it is not advantageous for them to adjust production) but this is unthinkable here.

Have there been such cases? Undoubtedly. But now we know that not all innovations do not conserve anything and yet they are still applied. As we now recognize, our rates of technical progress are lower than those in developed countries. Again it turns out that our competitors have utilized their extremely limited chances better than we have utilized our limitless possibilities. What were the qualities of our administrators then?

Or here it was suggested that under the conditions of socialism when a person is working finally for himself and not for the sake of the interests of the entrepreneur he would work much harder. They anticipated that glorious time when work would become a primary vital necessity, a pleasant game of physical and spiritual forces. And the time when things would go in such a way that from year to year we would work better and better. The opposite is more likely: for many decades we have developed the most real scorn and indifference to labor. Let us be honest. Today we are not the best workers in the world. For instance, in the United States 1.8 million people go to work each day, and here—4 million.

If the assumption about the boundless zeal for labor were correct, you will agree that our state administration would not look very good: it would have at its disposal the masses hungering to give all of their efforts for the good of society and they would not have the ability to take advantage of the situation. Alas, the idea about universal labor enthusiasm exists only in the treatises of philosophers.

It is necessary to distinguish clearly what absolutely will take place in life and which events are only probable and what will never happen, regardless of what measures are taken. I am convinced, for example: labor is a hell of a serious thing and it will never become a game. The time has come to take an inventory of what we really do have an advantage in over the competing social structure and in what, if one may express it this way, we have a disadvantage. To live among myths is possible and comfortable for the soul, but somehow it is uncomfortable in other relations.

In the idea, in the potential socialism actually is more suitable for centralized control of the economy and it is absolutely necessary, there is no question about that. But it is more convenient to provide for centralism not by total directive planning but in a different way—indirectly, through mainly economic devices. They are extensively utilized in the world. I shall give an example. Japan was the first of the developed powers to come close to an ecological catastrophe. After all, it is one of the most overpopulated countries and its rapidly developing economy literally forced people off the earth. It reached a point where in the large cities policemen stood at the intersections in oxygen masks and there were mass poisonings with production wastes. Today, as many tourists assert, there is nothing of the kind. So did the population suddenly become convinced and begin to protect their environment? No, here the state took

matters into its own hands. The entrepreneur who allowed harmful discharges had to pay so much money that there were people who were willing to clean up the mess. The state introduced strict standards for automotive exhausts and declared: these norms would go into effect in 5 years. Automotive construction corporations, whether they wanted to or not, changed over to producing machines that met these standards. A well-known journalist who visited Japan recently said: "Our Moskvich would not get around the block there."

And this is centralism of management in practice. All we do is write directives and draw up plans about how to save Baykal and Ladoga.

In any case, whether it be here or abroad, the state disposes of immense funds obtained in the form of taxes and other revenues. By maneuvering them they managed to direct the development of the economy in the desirable direction. It was possible for a certain amount of time to reduce or even abolish taxes on enterprises that are fulfilling the programs which the state supports. It is possible to give them less expensive credit. Nonreimbursable subsidies are not ruled out. Is there any shortage of examples of centralized regulation? Because of them in the United States, Japan and Western Europe they have a more realistic centralism than we have in the management of the economy. With the formal dictatorship of the plan domestic economy develops essentially anarchically. I recall that the last five-year plan that was fulfilled was the eighth and all subsequent ones have turned out to be unsuccessful and the degree of under-fulfillment of the plan has increased right up to the 12th Five-Year Plan. We have actually lost control of events.

Not so long ago a big ruckus was raised by a small article written by L. Popkova entitled "Where Are There Lighter Pies?" in the magazine NOVYY MIR. The author proves that the plan and the market are incompatible and it is necessary to choose one or the other. (It is impossible, they say, to be a little bit pregnant.) But this is not the essence of the matter. It seems to me that the question has been posed incorrectly and the author is driving herself into a corner by suggesting selecting between the plan and the market. In reality the alternative is different: is centralized control of the economy compatible with market regulators? And the answer is obvious: all world experience teaches us that these things have been excellently combined and the greatest successes are achieved by those economies where they have found the correct measure of this combination where methods providing for real centralism are applied.

In my view, the new economic mechanism includes no such measures and no such devices. Thus its other defects are also predetermined. When the entire production program in physical terms is sent down from above as before, the manufacturers of the products have the right to demand: since you ordered specifically what we must produce, tell us to whom we must deliver the items and from whom we will receive money for them. Then



the system of fund distribution of products remains inviolate and there is simply no room left for free wholesale trade regardless of how many words of praise for trade may be contained in the package of documents concerning restructuring of the economy.

Incidentally, concerning restructuring of the Gossnab it says directly in the package of decrees: "Transform...plans for distribution of products into the main instrument for organizing material and technical supply under the new management conditions." Here nothing can be added or subtracted—it is as though each word were written in granite.

In the spirit of the good old days they selected practical devices which were intended to stop the squandering of resources. The administrative sphere and enterprises were ordered "when developing production plans to apply scientifically substantiated norms for the expenditure of material resources...." The task is not new: the ill-begotten Decree No 695 (as has already been recalled, it was adopted in 1979) also demanded the development of these expenditure norms. Nothing came of this undertaking and nothing could come of it.

I recall the statement of one of the leaders of the Krasnoyarsk Glavsnab at a meeting of the board of the union Gossnab. At that time they had begun the assimilation of the Kansk-Achinsk Energy Complex. Orders were prepared for materials for the program by 2000 specialists from construction organizations of the area and, as the supply worker declared, "all 2000 are trying to deceive us—they are exaggerating their orders so as not to suffer later." In Krasnoyarsk they could not even check to see how precise the orders were. How can you verify them—after all, for each order it is necessary to repeat all of the calculations of the builders and the supply main administration did not have enough staff. It was necessary to accept clearly exaggerating calculations on faith.

The supply worker asked to accelerate the development of scientific expenditure norms. Next to speak at the board meeting was the director of the Scientific Institute of Gossnab who reported: in 5 years they had managed to draw up several thousand of these norms. That was all the Gossnab could boast of. Yet about 25 million kinds of products are produced in the country and the majority of them use several kinds of materials. Consequently, it is necessary to have hundreds of millions of expenditure norms.

History repeats itself: again scientific norms were needed. The plan was unfeasible also because they must be annually revised and strengthened so as to reduce the expenditure of resources. But one is struck most not even by the utopian nature of the undertaking as by the obtuseness of the thinking: it is assumed that people will begin to manage thriftily not for their own advantage but because they have been ordered to economize. It is difficult to imagine, for example, that the government of

France would prescribe for state plants of Renault how much nickel they could expend on one car bumper. Or go ahead and use platinum, but the market does not recognize these expenditures as socially necessary. And here? In the final analysis are our failures teaching us anything or not? Do we believe in the economic devices of management or not?

Within the new system again there is no place for wholesale trade and the next principle of the reform is automatically abolished—self-financing. It is not enough for the enterprise to earn money for the development of production in the social sphere. Money is a figure in a bank account. They need cement, metal, brick, equipment and many other things, and there is none of this for free sale, and we are convinced that there will be none. Again it is necessary to wait until capital is allotted for plant money we know not by whom and we know not when. There will be self-financing by special permission from the bureaucrats in each individual case.

The source of self-financing will be the profit of the enterprise. But, for example, the coal industry today operates at a loss on the whole and therefore the path to the new system of management is completely cut off to it. Is it really true that the only people working in this branch are duffers who drive the treasury to losses? No! When wholesale prices are assigned directly certain branches are destined to operate at a loss while others will be highly profitable. Once every 15-20 years there is a revision of wholesale prices that equalizes the level of profitability of the branches. The prices for fuel, metal, timber and electricity remain the same until the next revision while the technical equipment rapidly increases in cost (according to our calculations, by approximately 30 percent during a 5-year period) which again leads to a division of the branches into those that operate at a loss and those that are profitable.

The package of decrees envisions revisions of wholesale prices out of turn in 1990 and 1991—otherwise the changeover of the majority of enterprises to the new working conditions is impossible in principle. But the advantage from this measure will be short-term—after 2-3 years the enterprises will again end up in unequal conditions.

The laws of economics are strict: either work as you are supposed to or be ruined. And everywhere the success or failure of the collective depends not so much on whether or not people have managed well or poorly but on something else: whether an advantageous or disadvantageous price has been assigned to their products. The only reliable method of determining the price is the market; mankind has invented nothing better. We are speaking of course not about the gigantically exaggerated Tishinskiy Market—we have in mind the establishment of the prices for the basic mass of commodities by agreement between manufacturer and consumer. Yet in the new economic mechanism the opposite is envisioned—"strengthening of centralized foundations in control of



the entire process of price setting." This will mark the end of cost accounting. Now a great deal is being said about the utilization of the law of value and the changeover to commercial production. But in the commercial model, as it were, there is as much commercial as there is freedom of price setting.

Finally, about the last, the fifth fundamental principle of profound reforms—the economic interests of the worker. An enterprise that conscientiously settles its accounts with the treasury certainly does not receive the right to dispose of the remaining income independently. For what purposes and how much money to use—this is determined as before from above through a pile of normatives. So earnings again will depend not on the results of labor but whether advantageous or disadvantageous normatives have been obtained with much difficulty from the higher-ups.

Thus we are not revealing significant changes in production relations. Nor are there any in the practical devices for management of production or in the interrelations between ministries and enterprises. Yes, independence of enterprises has been proclaimed and their rights have been stipulated by law. But this is a fine and delicate material and the slightest inconsistency on the part of the legislator can transform the law into an empty stack of paper.

Let us make a small excursion into history. At the September (1965) Plenum of the CPSU Central Committee, as we know, they resolved two issues: concerning economic reforms and concerning the restoration of ministries instead of *sovnarkhozes*. In our opinion, the very idea of taking these measures at the same time was unfortunate: to introduce methods of management and at the same time to restore ministries, that is, agencies intended for purely administrative leadership, leadership by orders. One of them should have won out: either the reform should have crowded out the bureaucrats or the bureaucrats should have broken the neck of the reform.

The collision was manifested even during the course of the plenum. A. N. Kosygin outlined a fairly well-structured new system of management. It contained defects, I would even say fatal genes, but for a beginning it was not altogether bad and life would have suggested what needed to be changed and how. L. I. Brezhnev, who spoke next, placed more hopes in the ministries—they were supposed to have imposed order in the national economy. The key thesis in his speech was this: the ministries bear full responsibility for providing the national economy with products according to the list assigned to them.

But before providing the products they must be manufactured. Administrators do not make commodities in their offices. According to the logic of things the ministries are responsible for production as well, that is, for the utilization of live labor, materials and equipment, for

the quality of items, briefly, for all aspects of production life that are of any significance. There can be no responsibility without rights. Naturally, the ministries objectively had to have all the rights assigned to the branch as well. They could only take them from the enterprises—there was nowhere else. And that is what happened. The provisions concerning the enterprise adopted at that time (formerly it gave the "lower levels" considerable rights) remained on paper. It could be no other way. For if one and the same right is granted both to the plant director and to the minister, the question is resolved in principle: the one with the higher position has the rights as well.

Today we are repeating an old mistake letter by letter. In the package of documents the main task of the ministries and departments is "satisfaction of the needs of the national economy and population for high-quality products, work, and services." And more clearly: the ministries "bear full responsibility for unconditional satisfaction of the demands of the consumers for delivery of the products they need." Then the enterprise is not responsible for anything. These formulations alone are clearly inadequate to replace the new economic mechanism along with the law on the enterprise. Bureaucrats have placed a mine in the mechanism and it will inevitably explode.

They should limit themselves to this feat, but bureaucrats are thorough people. They have stipulated the responsibility of the ministries for the scientific and technical policy, product quality, the level of technology of production, the time periods for the creation of new technical equipment, economy of resources, the utilization of secondary resources (was it deliberate that they entrusted the dumps to the enterprises?) and for the prevention of the escalation of prices and production cost, the utilization of fixed and circulating capital, the time periods for the construction of facilities and their startup.... In everything else the enterprises are free as the birds.

The current sphere of economic leadership cannot fit into their restructuring, it simply cannot be adapted to the new conditions. The question stands as follows: either feeble absolute power of the administrators and an inevitable collapse of the economy or restructuring with good chances of its being saved.

I am afraid that the experience in the introduction of the unsuitable economic mechanism puts a trump in the hands of the opponents of restructuring. I have said already that in 1988 the speeds of development may drop: one-time reserves for acceleration are exhausted and permanent factors will not be included in the new mechanism. But there will be the appearance of failure with the restructuring: they will say it is too bad, but in the best years in the past the increases in industry approached 5 percent, but then the reforms began—so

there was a drop. There is no point to the reforms here—the new mechanism is no better or worse than the old one, it is simply old, and as such it is neutral to acceleration.

Everyone must be reasonable and experience the heartache of the advice of the tested variant of economic rules. If we do this quickly we will still have a small amount of time left—1989 and 1990—to conduct a profound economic reform. Then we will enter the 13th Five-Year Plan with an economic mechanism that works. The five-year plan and the methods of realizing it are linked tightly to one another. We are too late with the changes—another 5 years will be lost for restructuring. It cannot be ruled out but with such a development of events there will be no need for reforms.

And what kinds of reforms are needed—this we know. It is necessary to decide on the changes—the time history has left to us is passing and the time has been turned on.

#### **Popov on Plan Formation Problems**

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(signed to press 7 Jun 88) pp 168-174

[Article by Gavril Popov, doctor of economic sciences, professor: "Goals and the Mechanism"]

[Text] V. Selyunin's article raises a question of special importance: does the restructuring amount to nothing more than a change in the management mechanism or should it affect the very economic strategy of our development? Our economic strategy is implemented in plans—long-term and five-year—so the question that was raised is also a question of centralized planning.

Football fans are quite familiar with the situation in which the player who is all involved in feints and fancy moves in the center of the field loses sight of the other team's goalpost. In any matter there is the danger of departing from the major thing in the direction of the auxiliary and service aspects. In the restructuring of our economy, its goals and its strategy have been "clouded" by daily disputes about state orders, normatives, and so forth. Some people have been satisfied with the overall idea of the need to accelerate rates. For others the main thing is the management mechanism. Still others think that tactically it is more correct now to create a mechanism and the goals can be determined later.

V. Selyunin thinks that the first viewpoint prevails—the need to accelerate rates. Here he is both right and wrong. Indeed, there is such a primitive interpretation. It shows through in the "childish" desire to find out as quickly as possible the percentages of increase in the next quarter and—here one can agree with V. Selyunin—this is transformed from a childhood disease into a chronic enemy of restructuring.

It has been clearly determined in party documents: acceleration is a quality of our growth. This is the starting position for discussing the strategy for restructuring.

I should like to express a couple of my own ideas. For brevity instead of "centralized plan" I shall write "plan," although, strictly speaking, this word includes all kinds of plans: both centralized and those that are drawn up "from below" on the basis of centralized plans, those created by the enterprises and institutions themselves.

Of course I do not claim to have any system of ideas. But, like V. Selyunin, I think that it is very important to discuss what we want. For unless we have a precise answer to this question it will be more and more difficult to answer the increasingly complicated questions about the instruments of management.

I shall clarify this idea with an example. The new economic mechanism envisions monetary deductions from the cost-accounting unit to the ministry. One asks what the normatives of these deductions should be. One percent of profit, or 10, or 40? And why precisely that much? For example, is 10 percent not enough or, on the contrary, is it too much? Toward what should we strive in the next year and in the next five-year plan?

The management mechanism itself does not provide the possibility of an answer—for this one must know the strategy of economic development. If, for example, it envisions accelerated development of machinebuilding, deductions into the state budget from incomes of non-machinebuilding enterprises should be considerably more. But if it is necessary first of all to accelerate machine-tool building in machinebuilding itself then the normatives for deductions of machine tool building branches to the ministries should possibly be zero. Everything that you have accumulated you should use for yourselves. Moreover, we shall add to that. The machine tool building ministry will receive additional resources from the state budget. And this will mean forcing machine-tool building. But if, as V. Selyunin thinks, the very orientation toward forcing the development of the current machinebuilding complex is not irreproachable, then it is necessary to change the approach to the formation of normatives for deductions.

Or another example. In automotive construction the basic load in the creation of a new model of motor vehicle is borne by the association's VAZ, GAZ, KamAZ, and so forth. It is clear that most of the accumulations should remain in these associations. Then we will receive new and better quality models of motor vehicles more quickly. But there are other kinds of branches for the enterprises where the enterprises receive prepared technical solutions from their scientific and technical centers. It is clear that in such branches the normatives for deductions from the income of the enterprises should be different.

If, further, we have discovered branches which in the current stage of the scientific and technical revolution should be cut back, then here nothing should be left not only for the enterprise, but also for the ministry.

In a word, the normatives depend entirely on the economic strategy and the goals of the plan.

What has been said about normatives pertains to all units of the economic mechanism: the price policy, amortization norms, payments for resources, and so forth. This is why, in my opinion, V. Selyunin—regardless of how one feels about his specific ideas—is right in the main thing: the time has come to discuss the goals themselves. Otherwise we shall never create effective economic levers. Rather, we shall “adjust” the economic levers to the previous strategy, as is now the case in practice.

I consider the major problem of the current stage to be the fact that the economic mechanism is being formed for a five-year plan that was drawn up administratively.

The determination of the amount of economic normatives seemed to me to be excessively complicated. But for workers of the Gosplan, the Ministry of Finance and other central economic departments, and all ministries no special difficulties arose. It was simple for them to establish the normatives: they took the sum of the deductions that came from the existing five-year plan and by comparing these to the sum of planned profit they obtained the amount of the normative.

Of course in practice the separation turned out to be more complicated—both because during the course of the five-year plan much had already been adjusted and because at a number of enterprises the situation was more (or less) favorable than was expected, and also because dozens of other factors exerted an influence—right down to the subjective attitude of the ministry staff toward the given director. But the general idea was precisely this: to base the normatives on what was in the plan. This means that the enterprises were left in the power of the arbitrary “discretion” of the ministry. But now this “discretion” operates not directly as planning assignments but through the amount of the normative established by the ministry. Of course normative influence is essentially progressive. For example, previously the ministry could take all of my 100 rubles in additional profit. Now there is a firm normative for how they will be distributed between me and the ministry and, consequently, I have an interest in earning them. One can give many other examples of how much better the mechanism that is being introduced today is than the previous one. It is no accident that many labor collectives see in it the possibility of working better.

But we cannot be satisfied with the criterion “better than it was.” This is a very dangerous criterion, as the years of the slowdown showed. For the word “better” can mean

“very little” and it can be quite temporary. We need a radical restructuring—such is the logical conclusion from the radical unacceptability of the situation in the economy.

And in terms of this single correct factor the picture looks different.

The essence of the previous mechanism—the commanding position of the ministry and its right to determine the life of the cost-accounting unit administratively—has essentially not changed. As before, the destiny of the plant depends primarily on the will of the ministry and only after that—on the results of its work. When there is “good” will they will assign a lower normative of deductions into the budget and for the ministry—and the plant will end up among the leading ones. Or vice versa.

As we know, economic normatives comprise one of the levers of the new mechanism. Another lever is the state order. It was assumed that the state order would be an additional mechanism joining the past to the present. Included in it from the past is its compulsory nature. From the new comes the advantage, the orientation toward the most important final results, and so forth. This is all in theory. But in practice nobody remembers the advantage or the orientation only toward the most important things. The main thing in the state order has been its compulsory nature, and it has encompassed up to 90-100 percent of the production volumes. So all the previous directive planned assignments have remained, although, true, they have been closed in a new form with elements of the state order.

In practice this means the subversion of the main goal of cost accounting: self-financing of initiative for scientific and technical progress. The subversion proceeds according to the following system: let us assume that the plant has earned several million rubles in the technical development fund—for new machine tools and new materials. It goes to two of its permanent suppliers and hears the response: we cannot help you, all of our capacities are loaded with the state order. Arrange it so that your requests are included in it.

In order to order its machine tools and materials the plant must send the request to its own ministry. And the ministry sends it to the Gosplan, and so forth. In a word, this will be a movement along the long-familiar stairways of main entrances, but there is still a difference: previously it was necessary to ask for both money and “goods” for scientific and technical progress, but now all one need do is be included in the plan.

Of course the availability of money facilitates the negotiations. Of course everyone above is obliged to consider these orders first. But a shortage is a shortage and the main decision—who gets what and who does not—is made “above.” This is not self-financing. This is financing with one’s own money through decisions made from above. But the idea of self-financing was different: the



plant earned its own money and selected the variant of scientific and technical progress. Another plant considers for itself the orders from this or other plants and accepts orders from those that will pay more. And according to the idea the one that will pay more is the one who has managed to utilize its development fund profitably. And on the basis of this we are now introducing not objective profitability but, as before, an arbitrary decision by the central agencies.

It would have been possible to continue the analysis, analyzing the limits of supply, the wage fund and so forth. But the general conclusion is clear anyway: today we have an economic mechanism only in form. But in fact behind this stands our previous administratively compiled plan. In general, as a rule, everyone agrees with this conclusion. What they say: that is the way it was conceived. First the economic mechanism will be formed and then—with the new five-year plan—it will be filled with new content.

First we must discuss whether or not it is possible to prepare the form ahead of time. Theoretically it is. But what we are doing can by no means be called preparation of the form for the future five-year plan. We are creating a form only for our old plan. And although this provides work experience with the economic levers of the new system—normatives, state orders, and so forth—on the whole we do not obtain a new form for a new life. For behind every lever there is old content which does not suit us. Who needs fulfillment of a plan for the output of the kind of footwear which we are refusing to buy now? Who needs an increase in cargo turnover if it involves the fact that the enterprises are divided up among a hundred ministries and each ministry organizes "its own" cooperation?

The current plan is so incompatible with the new mechanism that it influences the form in a decisive way, making it impossible for either the normatives we need or the necessary state orders to appear in it. In a word, we are adjusting the new form to the old content to such a degree that the form, although it is new, is still not the one that will be needed under the next five-year plan. We will enter this five-year plan without a new mechanism.

Thus ignoring the goals of economic development which was the basis of the existing plan dooms us to a most difficult situation by the beginning of the new five-year plan. And sometimes it seems that this suits some of our overt and covert conservatives. For all they can do is draw up and fulfill administrative assignments. And as long as the plan is the main thing—directly or as the basis for economic normatives—they are on the block. Today this path enables them to remain in their posts. Under the new five-year plan it will be necessary to begin again the matter of drawing up the administrative plan and again we cannot do without it. But if the results are very bad the blame will be placed not on the plan but on restructuring.

The experience in restructuring thus convinces us of the following: while retaining the old economic strategy, the strategy of the current plan, it is impossible to create a new economic mechanism.

What is a plan that is drawn up administratively, and on what strategy is it based? This strategy is characterized by these aspects. First, simultaneously growth of all sections and a certain acceleration of a number of them. Second, reliance on generalized indicators and inadequate attention to real satisfaction of demand—both production and consumer demand. Overstocking and shortages result. Are they accidental? Certainly not.

In a strictly hierarchical administrative system all agencies of one level have equal rights. Managers of one level all have equal rights as well: whether they be ministers, leaders of krais and oblasts or directors of enterprises and associations. Under these conditions the distribution of resources through the center inevitably is subject to pressure from the idea of equal rights or, rather, leveling. The main principle in effect is a little bit to everyone. Hence the uniform increase within the framework of the existing structure. But this uniformity is still violated. The fact is that there are differences between ministers and between directors or leaders of oblasts. The ones that have the greatest influence and the greatest weight are those who today are in charge of areas that have the most resources, the most employees, the most party members, and so forth. Naturally the managers with more "weight" achieved more. And, consequently, in the structure there are certain very slow changes in the interests of those who are "heavier."

Of course the central authorities when analyzing tendencies in development try to accelerate sections that are recognized as being backward or progressive by including advantages in their long-term plans, for instance, for the petroleum and gas complex, the agroindustrial complex, or "large-scale chemistry." But the assignments of the plan are extremely general. During the course of their concretization when it comes to supply, financing and other current adjustments a general tendency is always manifested: those whose development they intended to accelerate receive less than was intended. And in cases where they have managed to provide a course toward structural changes it has turned out that they have taken place not where the greatest effect was expected but in those sections headed by a leader of a higher rank.

The result of this kind of structural policy (and it is the only possible one in an Administrative System) was the gradual increase in the role of branches and regions which in the past were relatively more "influential" with respect to the proportion of production or the rank of the leaders, and most frequently because of both factors. Here the past dictates the future.

The strategy of leveling distribution of resources precludes mobilization of the advantages of the most effective branches and regions. This strategy rejects the large

economic advantage beforehand since it ignores sections where this is possible. As a result, the "common pot" becomes smaller and smaller and the "additions"—for everyone equally—become more and more insignificant. And these equally distributed increases are smaller as the structure becomes more stable. As a result it becomes increasingly "ossified."

During the 1950's this was still tolerable. But in the 1960's and 1970's there was a world scientific and technical revolution which entailed profound changes in the relationship of the branches, a rapid decline of the role of entire branches, and a crisis of individual regions. Under these conditions forfeiting flexibility leads to an ever greater disparity between the type of structure of our economy and that which exists in developed countries of the world.

And the backward structure of the economy is doomed to a decline in the effectiveness even of immense capital investments. The funds are dispersed among hundreds of sections and as a result everyone has something but nobody has enough. For example, a city needs underground passages. Why not complete one and then begin another? It is impossible. It is impossible to give money to one "respected rayon," and not to another "respected rayon." According to this logic it is "more convenient" to construct underground passages in several rayons of the city all at once although it takes longer to construct them. Any other decision in the Administrative System is an accident and an exception.

This is why the restructuring of our economy cannot be limited to a restructuring of the management mechanism. No less important is the question of the goals of the economic strategy.

What should be the goals of the economic strategy of restructuring? V. Selyunin began to discuss this question. I too shall mention a number of aspects. Briefly, of course.

First of all it is necessary to satisfy the demand of the population—both for consumer goods and for services, without forgetting about the money already accumulated by the population, that is, the deferred demand. Of course, it can be frozen for a certain amount of time and in certain forms. But suggestions about a monetary reform in order to devalue what the workers have already accumulated are definitely unacceptable. This would be such a political blow to restructuring that no economic advantages could compensate for it.

One can predict that a reorientation toward demand would cause a regrouping of both material and human resources. In practice this would mean the closing of many enterprises. In light industry, agriculture, and the sphere of services those who are unable to work will be destroyed; in heavy industry it will be necessary to close

down enterprises that were created in excess of the country's real needs and the resources of the artificially inflated branches will flow into those that are working for the population.

They say that this will weaken the country's power for the resources will flow out of machinebuilding and heavy industry. According to formal logic this is true. But only formal logic. If one thinks about it, heavy industry will gain. Why? Because the most ineffective enterprises will close down—those which for decades have essentially lived at the expense of others, the ineffective branches, shops and sections. And the plants that are providing or are capable of providing for modern production will actually gather force by increasing their incomes.

If, however, the problem were reduced simply to regrouping means and forces among sectors of our economy, it would be no more difficult than, for example, the changeover of the military industry to peacetime operation. But the situation is considerably more complicated. In the first place, the branches that are oriented toward social goals in our country have fallen incredibly behind world standards. These branches need more than simply an influx of resources: the resources must meet modern technical, technological, ecological and medical norms. In the second place, our heavy industry is also in a very difficult position—it too is lagging significantly behind the world level.

This is why, if we look the truth straight in the eye, the restructuring will not save our country unless it leads to a decisive change in the situation in such key areas as computerization, robot equipment, biotechnology, information science, and so forth. Without this we cannot solve ecological problems or problems of production safety, and we cannot release thousands of workers from the tedious work on conveyors.

It appears that there are two ways of making up for the arrears. The first: to wait until under the influence of popular demand there is a restructuring of light industry, the sphere of services, and agriculture, and their needs will bring about a restructuring of our heavy industry. This path is feasible and stable, but long. The second is to utilize the force and power of the center in order to accelerate technical reconstruction. It is appropriate to recall that Japan, which has achieved great success on the path of scientific and technical progress, took advantage of the state to the greatest degree as an instrument for accelerated development; if the reserve of centralism produced this kind of an effect even with private ownership, then for us, as they say, it is God's will.

But this question arises. After all, our industrialization also proceeded from the idea of centralized acceleration of technical progress. Will the situation not be repeated—with all the consequences for economics and politics? Will the attempt to actively utilize the center to

overcome economic backwardness not lead to its separation from the society, to a growth of bureaucratization, and to the same waste of material and human resources with which we paid for the administrative approach to industrialization?

This is not an idle question. The current situation is extremely contradictory. The interests of effective structural regrouping require the elimination of arbitrary interventions from the center. And the need to overcome the arrears as rapidly as possible indicates the need for active utilization of the center. In my opinion, this is the main objective contradiction of our economic restructuring. It is necessary to look for a management mechanism whereby we can utilize the advantages of centralism and at the same time avoid those dangers of isolation of the center which were manifested in the 1930's and the cult of the personality and in the end generated the mechanism of retardation.

The tasks of the structural rearrangement of the first level—regrouping of resources, elimination of ineffective enterprises, and so forth—can be successfully resolved by the market, economic competition, procurement prices, complete cost accounting, and so forth. The tasks of structural rearrangement of the second level, which require a break, a radical technical reconstruction, must be resolved with the active participation of the center. And if problems of the market are clear, the second task, taking into account the successes and tragedies of the past, is very complicated. Indeed, what is the new type of centralism that is not administrative but economic?

Apparently it is necessary first of all to relieve the center of the duties of directly managing the entire economy and being directly responsible for it. It is more correct to concentrate efforts only on that which is done poorly or cannot be done at all without the center. Then it is necessary to limit the role of central management by economic levers. And, of course, it is necessary to develop a political system whereby maintaining powerful economic levers in the hands of the center would still rule out attempts to place itself above the society and would not lead to omnipotence of the bureaucracy.

If the center cannot be relieved of direct responsibility for the economy as a whole, its agencies will spend resources on rectifying current affairs and providing for the results of the quarter or the year. Cost-accounting organizations should be responsible for the economy (they should answer with their earnings directly and completely). And the center would begin to influence the overall development of the economy through its centralized programs.

We must relieve the center primarily in order so that it can concentrate all of its efforts on key areas for the country's future.

The similarity with the model of industrialization in this approach lies in relying on the center for the main thing (at that time it was heavy industry); there is also a similarity in the relative indifference of the center to other spheres—at that time—to light industry, kolkhozes, cooperatives and so forth). The difference is that previously this model was administrative (with inevitable sacrifices, losses and outlays—economic and social) and now we must make it economic (and, consequently, democratic).

What does economic centralism mean? In the first place, it means the center's right to dispose of only those resources that are allotted to it. They are the only ones that can use its levers of influence. Administrative rights should be reduced to a minimum. The point of this measure is that the center can use its authority only with respect to the funds it has. Herein lies the first restriction of the danger that the center will break away from the society.

In the second place, it is necessary to make the center's assignments economically advantageous: if they are the most advantageous they will be the first to be carried out. Domestic plants should strive to obtain orders from our government just as capitalist firms strive to obtain contracts. There is a great deal of sense in this. In order to pay a worthy price for state orders the center must find the spheres of the most effective application of efforts. The need to act with the help of the state order, which is advantageous, is another limitation of the danger of reducing centralism to administration or bureaucratization.

The third restriction has to do with the system of payment to workers of the center. They must receive, as V. I. Lenin put it, bonuses—income taking into account the return from their efforts and centralized programs.

The fourth restriction is the creation of powerful, independent enterprises, associations, cooperatives, regional economic complexes and so forth that are capable of economically opposing the center.

How does the model of the interaction between the centralized plan and economic levers appear? In the first stage, with the development of the long-term strategy for scientific and technical progress and the entire economy, the tasks of development are determined. One analyzes which of these can be resolved by the enterprises themselves with the help of direct market ties. Then one reveals the sections that require centralized influence and calculates the resources necessary for accelerated development. A comparison of these with the proposed sum of income forms the approach to determining the base normatives and the scale for taking funds from the enterprises (deductions into the state budget, payments for funds).



In the second stage, within the limits of the resources allotted to the center they develop centralized and also branch and regional programs and distribute funds for state orders—in such a way as to make the state orders as advantageous as possible.

Taking into account these programs and the future activity of cost-accounting units, in the third stage they form a plan consisting of two blocks—the plan of state orders and the generalized plan of the enterprises. On this basis it is possible to determine the main economic normative—the normative price, and also the progressive tax for deviations from it.

This entire process must be rescued from the arbitrary actions of the leadership. Only with a democratic mechanism is it possible to decide correctly which normatives will be acceptable for the society.

In general outline this is the way I picture the system which should arise as a result of the restructuring. It will make it possible to develop both an economic strategy and a management mechanism—the instrument for its realization.

In conclusion I should like to note the following. While supporting the main ideas of V. Selyunin, I think that we should not represent the view he disputes as the official viewpoint. This is primarily the point of view of the central management apparatus. The party's formulation of the problem of acceleration as a quality of growth makes it quite possible to find correct approaches to the problem of rates.

Unlike V. Selyunin, I consider it necessary to rely to a certain degree on the development of a number of key areas of the economy, concentrating the influence of the center mainly on them.

And, finally, it seems to me that an economic approach alone is inadequate. How, for instance, can a brigade that has been relieved of surplus workers respond to a directive from the rayispolkom to send two people to the vegetable base? How can a collective that has elected a director respond to attempts on the part of the raykom to "crush" this leader with hearty reprimands for "obstinacy"? If the rayispolkom or raykom has its way, the new economic mechanism will perish. And what if the labor collectives of the cost accounting units wish to elect an ispolkom that is capable of doing without mobilizing people for the bases?

We need political guarantees. Political guarantees are a new all-embracing democratic system for construction of the society. Without them the management mechanism in and of itself will not be economic. Centralism under socialism is objectively necessary. And the main guarantee of protection against bureaucratization of the center is democratization of the political system and intraparty life.

### Latsis Cites Need To Analyze Demand

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(signed to press 7 Jun 88) pp 175-179

[Article by Otto Latsis, doctor of economic sciences: "A Threat to Restructuring"]

[Text] The ideas V. I. Selyunin discussed in detail here were first presented briefly in a newspaper article in SOTSIALISTICHESKAYA INDUSTRIYA. It caused a big uproar. On the subway one could see people reading xeroxes of it. People in the most varied audiences asked my opinion about this article—from students at Moscow University to foreign journalists. This interest in and of itself is an indicator of the brilliant success of restructuring: a multitude of "simple people" have begun to think about strategic state problems seriously and specifically, as if it were their own immediate affair, problems about which it would seem that only the Gosplan would have to worry.

I should like to immediately set aside the disputes about the precisions of the author's calculations which are inessential for our discussion. And not only because of indices of macroeconomic quantities by their very nature are not precise in the simple arithmetic sense and it is impossible to prescribe methods for their calculation that are best in all cases. I would not even like to discuss the clearly particular quantitative mistakes. Concerning those economists who, correcting V. Selyunin, point out the real or (more frequently) imagined mistakes in his calculations I would say this: they are arguing about where he should place the dot on his sight without noting that he is suggesting firing in an altogether different direction. But this—the selection of the target—is what should be discussed first.

I am deeply convinced that Selyunin is suggesting the correct goal, although much in his analysis is in need of refinement. First of all I would note that there is no reason for him to consider Academician Aganbegyan to be his opponent—indeed, they both look on our economic development in generally the same way. The acceleration discussed by A. G. Aganbegyan is undoubtedly necessary and his sample calculation cited by V. I. Selyunin is undoubtedly correct. It is another matter that there are erroneous interpretations of this calculation, that the customary bureaucratic application of the idea of acceleration leads to incorrect planning decisions—but this is not Aganbegyan's fault but the fault of those who plan in this way.

Imagine that a certain doctor says that a patient has a high temperature, he is sick, and he must be treated. And they respond to him: yes, it is necessary to plan a normal temperature. "Send down" a plan for the temperature and begin to shake the thermometer so that it will show what is needed as quickly as possible. Before very long the patient dies, but is that the fault of the doctor who noted the high temperature and suggested that for a healthy person it should be normal?

Of course, one should plan not the temperature but the treatment—with good treatment the economic “thermometer” will show a normal temperature without any special efforts from the planning agencies. And conversely with the current attempts to “beat out” volumes from the enterprises for the sake of volumes by distorting the idea of the state order and other ideas of the reform—with such actions there will be neither any real improvement of the economy nor even improvement of formal indicators of health.

And it is not a matter of conflict between consumption and accumulation or between the first and second subdivisions of public production or between groups “A” and “B” of industry. Perhaps here V. Selyunin, engrossed in just criticism of our shortcomings, did not notice that he himself in his critical analysis was applying macroeconomic indicators, that is, arguments of the same order as A. Aganbegyan used: these indicators signal a disease but do not indicate the direct path to its treatment. Let us imagine that the planning agencies suddenly take Selyunin’s side but interpret that problem as they interpreted acceleration “according to Aganbegyan,” that is, they reduced the matter to having the enterprise achieve the desired macroeconomic indicators—as long as the response agrees with the solution that is sought. Then they will begin to “cram” into the plans of the indicators the first volumes that come in for group “B” exactly in the same way as they now “cram” them in for group “A,” without considering the real needs or capabilities.

The whole matter is that indicators suitable for macroeconomic analysis cannot serve as the point of departure for current planning, especially at the level of the enterprises. Having studied these indicators one can understand the problems with the old strategy and select a new one, but it is impossible to realize a correct strategy directly through planning “good” indicators. In the final analysis V. Selyunin’s calculation is as much a demonstration as A. Aganbegyan’s. It reflects the illness but does not even give a diagnosis of the disease, not to mention indicating a treatment. For the real problem is not simply that we produce too many means of production and not enough objects of consumption. The problem is that we manufacture many unnecessary means of production and unnecessary objects of consumption and we do not have enough of what we need—of either one kind or the other.

At the level of analysis of consolidated indicators one can prove, for example, that we do not have enough grain harvesting combines since the harvest takes too long and this causes large losses of grain. Yet the amount of grain we harvest is less than that in the United States by a factor of 1.4, while we produce 16 times more combines. We have so many unrepaired combines on our farms that American industry with its current capacities would take 70 years to produce this number of. It turns out, on the one hand, that there is a monstrous overproduction of combines which can continue only because the sovkhozes

in the absence of cost accounting have received technical equipment at the expense of the state budget, and the kolkhozes—through state credit that is periodically written off. The kolkhozes and sovkhozes would accept the kind of technical equipment offered by many of our plants only as a gift and very frequently only for spare parts. As soon as cost accounting began to manifest its force with the beginning of the reform, the farms reduced their orders for agricultural equipment by a third and the producer of especially bad combines—the Krasnoyarsk Plant—was faced with the threat of being shut down because of the lack of sales. And this was with a continuing shortage of spare parts and with the continuing monopolistic position of the poor domestic combine on our market with state subsidies that makes the newest and best of the Soviet combines, the Don, be sold at half price even with complete cost accounting. They would not buy it at full price. And along with the overproduction there is an immense need for a combine of the quality, say, of those produced in the GDR: highly productive, lightweight, reliable and with small losses of grain.

It turns out that the question of how many combines we need is inseparable from the question of what kind of combines they are, how they will be supplied with spare parts, and how they will be repaired and stored. Consequently, we cannot determine what and how to plan until we decide who is doing the planning. The kolkhoz orders one thing for itself and the ministry orders for the state, that is, for “nobody”—something altogether different.

There is no doubt that we need a breakthrough in the development of machine building, and we need it very much. It seems quite logical that a solution to this would involve increased capital investments for the branch. But in combination with the old planning mechanism this point of the plan becomes a goal in itself. For certain units of the state apparatus that have been given a good deal of authority the task amounts to this: spend a certain amount of money. And they spend it. An astonishing fact was published in OGONEK by the general director of the renowned Ivanovo Machinebuilding Association, V. Kabaidze: he does not need additional space for expanding production, but the ministry allots 100 million rubles and orders him to construct a new building. The director cannot make much smaller expedient expenditures on new equipment, but the immense unnecessary expenditures—go ahead.

The effect of the projects of the Ministry of Land Reclamation and Water Resources are even more remarkable. They have already become the talk of the town because of the immense harm caused to nature and monuments of culture, but they have not yet been properly evaluated from the economic standpoint. The normative time period that we have adopted for recouping capital investments, which is not at all rigid but is rather easy, is 8 years. The actual time period for recouping capital investments of the Ministry of Land

Reclamation and Water Resources under the past five-year plan, according to estimates of the department itself, exceeded 20 years—this is quite enough to immediately put a stop to such jobs. But, according to the estimate of independent scientists, the actual time for recouping its expenditures was 100 years—an amount that one might say is irrational, which is essentially tantamount that these expenditures will never be recouped. And many irrigation facilities have a negative "profitability": these are expenditures for the sake of "production" of losses. The fertility of the land does not increase because of this irrigation but decreases or is completely destroyed. This national disaster—not a natural but a planned disaster—can exist because of only one reason: the irrigation facilities are paid for by the state. If they were paid for by the kolkhozes and sovkhozes or true cost-accounting income the Ministry of Land Reclamation and Water Resources would not receive a single kopeck for the majority of its plans.

Thus if we try to realize V. Selyunin's quite correct idea about accelerated increase in the production of consumer goods through the existing planning mechanism (allot so many billion rubles in allocations for these purposes and distribute them among the corresponding ministries and then among the enterprises) we will obtain nothing except for more wasted expenditures, but they will be in different branches. The time has passed when a noncost-accounting mechanism of planning would operate ineffectively. Now it does not operate at all, that is, it does not lead to the goal that has been set.

Various formulas are suggested for treatment for "ministerial" diseases. People speak, for example, about changing ministries over to cost accounting. But these suggestions show only a lack of understanding of the key word of the reform. Cost accounting is a method based on recouping all expenditures of the enterprise through earnings from sale of its product or services and payment for the labor of the collective depending on the profit that is received. This means that as a minimum it is necessary to produce products and sell what is produced. A shop, for instance, cannot be on complete cost accounting—it produces a certain product but it does not sell it and so only partial, intraplant cost accounting is possible here. Nor can a ministry be on cost accounting: it does not produce anything. Payment for the labor of the ministry staff can and should be made dependent on the results of the work of its enterprises—for instance, change them over to the bonus system or commissions (percentages of transactions) as Lenin suggested. But, for instance, say, the conclusion of an agreement between the ministry and the enterprise with complete reimbursement for losses from mistakes of the ministry would essentially mean covering these losses at the expense of all enterprises of the branch. For the ministry itself does not produce anything and it cannot have complete cost accounting—it can pay only with money taken from the same enterprises through centralized deductions. And yet it is the one that establishes the normatives for these deductions and you can complain all you want about

arbitrariness in this matter. And it is the one that can squander these resources; an example of this is the 100 million-ruble "tent" of V. Kabaizze. And if the ministry has to use this centralized fund to settle with enterprises that have suffered as a result of the regular bureaucratic bungling—it will still not go away. And the enterprise will be placated. There will be no complaints—for the state will be the only one to have suffered. And the ministry can hide safely under the protection of centralized funds.

No, cost accounting planning must mean something else: units that by their nature are not subject to cost accounting like ministries, main boards, former all-union production associations or the latest state production associations that create no resources should not dispose of resources either. It is not without reason that in the documents of the reform cost accounting is defined as self-recoupment and self-financing—this is not a tautology; these things mean different things. Self-recoupment means the rights and responsibility of the enterprise with respect to current expenditures, and self-financing—with respect to capital expenditures. Since machine tool building has earned hundreds of millions of rubles for its capital that goes to the Ivanovo Association, this should be in the hands of the collective of the association headed by V. Kabaizze. It is here that the greatest knowledge regarding expedient utilization of funds and, the main thing, the greatest interest in it is concentrated.

Of course the question of necessary centralization remains: what happens when it is necessary to combine funds for constructing a large facility in the interests of many enterprises. But even last century capitalists were able to agree about the creation of joint stock companies for this purpose—and we, on the basis of socialist property, can organize voluntary unification of resources much more simply. And we had experience in this during the 1920's and there is something like this even now—for instance interkolkhoz enterprises.

It is also sometimes necessary to finance construction projects at the expense of the state budget. But the sphere where it is necessary and useful is only a fraction of that which it now encompasses. On a statewide scale the Gosplan could dispose of these centralized resources. In this connection it is time to say something about the fact that with the changeover to the new economic system a large share of the management functions should be transferred from the ministries and other management agencies to the enterprises. So why then do we need so many ministries in industry and construction? A large part of them are not necessary and abolishing them might be the simplest and most reliable method of getting rid of what we do not need. And those functions for joint activity which are necessary under the new conditions can be assigned to the contractual (and voluntary!) shareholding firms created by the enterprises that render paid management services. The sphere of management should be increasingly transformed into a sphere of services.



And one more issue cannot be sidestepped in connection with V. Selyunin's article. The revenge of the bureaucracy he suggests is not some kind of amorphous idea; it has a quite real and very strong mechanism. The destructive force of this mechanism is manifested regardless of whether it is directed by somebody deliberately or it develops spontaneously under the influence of the qualities inherent in the bureaucratic system and other objective circumstances. The mechanism that is most dangerous for the fate of restructuring was inflation caused by excessive expenditures from the state budget. Recently the budget has sustained unforeseen losses because of the reduction of imports of consumer goods (a forced measure brought about by the reduction of export revenues after the decline of world oil prices) because of the reduction of sale of vodka and because of the Chernobyl disaster. Yet even before that there was a surplus of monetary payments to the population as compared to the commodity supply in the market. True, state regulation of prices makes it possible to create the appearance of their stability but it cannot remove the surplus of money that is not backed up by products. Now the pressure of this surplus on the consumer market is quite clear: the list of goods that have been placed in the category of shortages is expanding without restraint. The market is crumbling before our eyes in spite of the fact that deliveries of goods are increasing. Monetary payments are increasing more rapidly. Millions of people are doing work for which they are receiving no commodities. They are building irrigation canals which do not produce additional agricultural products; they are producing machine tools for which there are no operators, tractors for which there are no drivers, and combines which they know will not work. Millions more people are supplying these unnecessary productions with electric energy, metal, ore, petroleum, coal and so forth and so on. All of them receive wages along with the others and bring their honestly earned money into the stores, but there they do not find commodities produced as a result of their labor: what is not there is not there. If it continues either the shelves in the stores will be completely empty or a price increase will be inevitable.

I am not speaking about the increase that has been needed for a long time, about which I wrote in the second issue of ZNAMYA for 1988. That was an increase for changing the outdated price structure and it can be conducted with complete compensation to the population in the form of increasing wages and pensions by the same amount that the prices increase for individual goods. This measure that is inevitable and fairly complicated and painful for many, with an overall commodity and monetary balance could normalize the market. But when a general imbalance is added to the structural imbalance—here things become worse and the very change in the structure of prices can hardly produce a useful result under such conditions.

It is mainly the largest projects that have been carried over to our plans from the times of stagnation that require immediate and thorough revision. So far the only

one that has been abolished is the notorious diversion of some of the water from northern rivers—it was abolished because of protests from the community against its ecological consequences. But the economic catastrophe with which we are threatened by most of the plans of this kind have not yet been sufficiently recognized. In this respect, for instance, the construction of the largest tractor-building complex in Yelabug evokes no less doubt than the plan for the diversion of water. It will be necessary to spend 3.8 billion rubles for the construction of the tractor superplant and then hundreds of millions more each year for its operation—and all these are additional rubles which will appear in the stores without any goods to buy with them because the plant in Yelabug will not produce goods for the population. Moreover, even with the help of the products they produce there will still not be an addition to the output of goods for the population because there is not a sufficient sales market even for the existing tractor plants, there are not enough drivers for the tractors, and there is not enough work either. The kind of complex that is planned in Yelabug can only expand the shortage on the commodity market.

And yet this is a construction project that is comparable in scale to the VAZ or the KamAZ. It is not yet too late to change its profile: instead of a tractor plant they could place there, for example, a plan for mass production of the Oka small engines which cannot now be made on an economically effective scale. Such a plant could annually reduce by several billion rubles the shortage in the market of consumer goods. Reduce it, and not increase it. In the same way it is possible to review the expediency of certain other construction projects and even existing productions.

But the main thing is that it is necessary to move the economic reform forward more rapidly. It should spread not only to the enterprises but also to the sphere of branch and national economic planning, finances and credit, and wholesale trade, and it should change all economic relations in such a way that there is not a single corner where the ruble can be squandered as though it did not belong to anybody.

#### **Shmelev Backs Selective Acceleration**

18200237a Moscow ZNAMYA in Russian No 7, Jul 88  
(signed to press 7 Jun 88) pp 179-184

[Article by Nikolay Shmelev, doctor of economic sciences, professor: "The Economy and Common Sense"]

[Text] I shall begin by saying that I fully support both the analysis and the conclusions in the article by V. Selyunin. He speaks not about trivia and not about secondary problems and difficulties in our economic life—he is speaking about the main thing. We do not need illusions; the issue today really is the way V. Selyunin writes about it: "...Either the feeble absolute power of the administrators and the inevitable lapse of the economy—or restructuring with good chances of survival." It is vitally necessary for us for the leadership of the country, both the middle level and

all the population to be fully aware of the critical nature of the current stage in our history: either we move forward as a great, powerful and dynamic power or very shortly (I think no later than the end of this century or the beginning of the next) we shall turn into a backwards, stagnant state which is an example to the whole world of how not to construct economic life.

And the matter here—at least today—has nothing to do with the rates of economic growth or gross output, it has nothing to do with the quantity of products that are produced. It is time for us to get rid of the "religion of rates," the almost mystical fear of their possible reduction. We have driven ourselves into a corner, a blind alley: in the inevitable, inexorable choice between religion and economic rationality we still continue to choose religion, sacrificing the country's future for its sake.

Today we need high, if you will, "hysterical" growth rates only in the supernew branches—the so-called "high technology." But even in the United States these branches now produce 8-9 percent of the gross national product and all the rest comes from ordinary, traditional branches of production and the sphere of services. We do not need more metal: throughout the entire industrial world there is a reduction of the production of regular metal and only we, blinded by slogans from the first five-year plans and bound hand and foot by the cost mechanism, continue to senselessly increase its production without even asking ourselves why. We do not need to increase the gross output for machine tools (the majority of which have long been obsolete in terms of their technological level): the majority of our machine tools either stand idle altogether or are used on only one shift or are being repaired or are working with so much waste that it would be better not to use them at all. We need a different quality of machine tools. We produce about 800 million pair of shoes a year (and we import about 100 more)—nobody in the world produces such quantities either in terms of gross output or per capita. Why do we need growth at all in this branch? Is it not clear that we should simply produce a different kind of footwear and not increase the production of the kind we have now which nobody wants?

Even in the agroindustrial complex today we do not need an increase in growth output: we are destroying, spoiling, allowing to rot and losing no less than 20 percent of the annual production of grain crops, 60-70 percent of the fruits and vegetables, and 10-15 percent of the meat. We do not need any more mineral fertilizers, tractors, or combines: we produce twice as much mineral fertilizers as the United States, 6-7 times more tractors, 14-16 times more combines, but, as we know, we purchase grain from them instead of their purchasing it from us. For tractors, for example, the real demand is one-third less than the amount produced. I agree with V. Selyunin: refrain from force, "now make it incumbent on the combine builders to find their own consumers and they would probably not load even half of the plant capacities." And under these conditions we are investing

billions more rubles in the construction of a new tractor plant in Yelabug! What is the matter, do we not have anything else on which to spend our money? Or is this simply a national inclination to stubbornness and the thoughtful departmental ambitions of the Ministry of Tractor and Agricultural Machine Building over which there is apparently no control?

We must not and we need not accelerate ineffectively everywhere and in everything. This kind of acceleration is indeed "illusory." The country's main problems today are not in "gross acceleration" and this is not where the main forces and main sources of our advancement lie. We need a different economic mechanism and a different quality of growth, that is a different quality of output, a different scientific and technical level of production and, finally (and this, I am convinced, is the main thing), a different social situation in the country which unleashes the creative forces of man that have been suppressed by many decades of the monstrously inflated administrative pyramid. A situation of "universal strain, gross output at any price" (as it were, "going all out"), which was imposed in the 12th Five-Year Plan—this is not the situation that can enable us not in words but in deeds to achieve progress in the economic reform. This is not a paradox, this is a reality of our life. V. Selyunin is right. We must take a calm attitude about our failure to meet the goals of the current five-year plan—we will consider that we have saved resources instead of spending them on producing what is not needed."

Moreover, it is precisely the situation of "universal hysteria," and the orientation to gross output that explain the sad and highly alarming fact that the new law on the enterprise in which we are placing such hopes is actually paralyzed. Why? Because the ministries quietly, without a sound, without attracting attention to the moaning and wailing of the press, are actually smothering it in its cradle. The state order for 100 and more percent of the products, the deductions from profits of enterprises into the budget and the ministries at the level of 85-95 percent, the impossibility of disposing of funds without permission from above, the impossibility of either selling one of his products and spending one's rubles outside the system of "card supply," the increase in mandatory directive indicators sent down from above under the hypocritical name of "control"—does it take much to transform the law into an empty sound? Since the technique has long been known and long been worked out—that is the way cost accounting (that is, independence, self-recoupment and self-financing) was already smothered once in 1965. Again I agree with V. Selyunin and I am also ready to match his words: if everything is going to be the way it is today, "within a year or two not a single square meter of plant area will remain for filling contractual orders." And what kind of cost accounting, market, freedom of enterprises, unleashing of creative forces of production collectives can there be then?

Of course I am far from the idea that in the ministries today there are only villains, incorrigible bureaucrats

who are ready to do anything to avoid losing their authority, people who are completely indifferent to the fate of the country, to the fate of the nation. No, I am convinced that the majority of our bureaucrats are intelligent, respectable people. But as long as the ministries are responsible for production, for fulfillment of assignments of the 12th Five-Year Plan, as long as not a single one of their functions has actually been transferred to the lower levels, to the enterprises and associations themselves—the market, self-adjustment, contractual relations, money, the full-value ruble—all this is theory, discussion, the dreams of people who have finally been given the right to speak but because of their position they do not have the possibility of influencing events.

Take away the oppressive, unreasonable force of arbitrary planning assignments taken from the sky, take away the strictest responsibility of the ministries for the fulfillment of these assignments, deprive the departments and local party, soviet and management authorities of their current major function—to “knock out” the plan no matter what. Then it will be possible to say who this really is—our bureaucrat. You will agree that eliminating the functions is a much more difficult task than mechanically reducing the staff by a third or even by a half. But without eliminating the functions we will never break (especially in the rural areas) the resistance of the departments and the local authorities to the economic reform: in reality they have no other choice than actually to resist it.

I think this is the way out of another blind alley, out of another immense problem raised by V. Selyunin: how to achieve an appreciable improvement of the standard of living of the population and how to change the current social situation so that people will believe in the restructuring and the economic reform, so that they will overcome their passivity to which they have become accustomed over the decades. Immense possibilities exist here.

V. Selyunin, for example, quite correctly points out the unjustifiably high norm of accumulation in the national economy (about 40 percent if one eliminates the distortions of our statistics) which essentially is increasingly become a kind of “eternal engine,” a “stupid infinity”—production for the sake of production without the slightest final effect either for the mass consumer or for solving overall social problems of the country and expanding their social infrastructure. If it were only for production of means of production this norm of accumulation which is probably the highest in the world would produce an undoubted effect: if not now then perhaps in 20 or 50 years it would have an effect on the standard of living of the simple man. But in reality an immense part of this accumulation is wasted, it goes simply to keep our economic machine “idling.” Now our commodity supplies, for example, are increasing 5 times more rapidly than they are in the United States, and compared to the national income their overall amount is 3 times higher than they are there. Our output-capital

ratio has decreased by half in the past 25 years, including by a factor of 3 in construction. In the rest of the world it usually takes 1.5-2 years to construct a plant of any profile with any capacity, while here it takes 11-12 years and more. Up to this point, for example, we have been allowing ourselves such a luxury as maintaining an entire ministry—the Ministry of Land Reclamation and Water Resources—with an annual budget of about 11 billion rubles and 2 million workers who do only harmful work (it seems that it has proved its ineffectiveness to everyone). But what if it were building roads, elevators, bridges or housing?

The reason for these phenomena lies in the fallacious nature of the very system of all-embracing directive planning which impedes the “turning of the wheels” in our economic mechanism. And there is only one solution here—self-adjustment, cost accounting, the market. Then we will be able to use a smaller share of the national income for accumulation than we do now. Enterprises with complete cost accounting will not be able to and will not (in order not to destroy themselves) maintain the immense supplies of material values and have such unloaded production capacities or construct “Egyptian pyramids” which nobody in the country needs.

And this is only one of the sources of raising the standard of living and developing branches of economy that work for the final consumer. There are many others. For example, it is time to discuss in a businesslike way our real possibilities of improving the life of the population as a result of reducing the size of the army and defense expenditures, the system of state security, and various legal protection agencies. It is also clear to everyone that the management staff in all of its units and all stages of our economy is excessively inflated and has largely assumed a purely parasitic nature. We hold the world record for the proportion of managers throughout the entire population. Even China, which follows us, according to our “norms,” today would have to have not 27 million “ganbu” (and they consider this too many), but 70-75 million. The possibilities here can be seen, as it were, with the naked eye. For example, if one counts only the drivers of private automobiles we, a socialist state, today probably hold first place in the world in terms of the number of professional service personnel. And again there is only solution—eliminate the functions of the unnecessary administrative superstructure and introduce cost accounting, self-supporting production, and self-financing of production collectives.

And here is a fundamental fact: no less than 20-25 percent of the work force employed in industry today is superfluous for the process of production even according to our technical norms. Either they are absolutely superfluous or they are maintained only so that there is somebody to send for haying, for harvesting the crops, to the vegetable bases and so forth, that is, for needs which under conditions of reasonable cost accounting could be satisfied with a smaller number of work force. Is this not a reserve for lading the production capacities that are



standing idle (V. Selyunin says that in industry they comprise more than a fourth), expanding production, and correspondingly raising the standard of living of the population?

But in this stage it seems to me that something else is of decisive significance. The ruble is not working—that is the main thing. Economic incentives are not functioning or they are functioning poorly from the beginning because neither the basic wages nor various additional incomes can buy anything. Even the existing standard of living and the existing average wages are largely a fiction and will remain such until we manage to saturate the market with foodstuffs and industrial goods, and not just any goods but those which are in demand among the population. I am convinced that today this is the main task of restructuring, keeping in mind the attitude, the way of life of the population, and its interest in the success of the economic reform that has been started.

I am afraid that from this standpoint today we have not selected the best sequence of measures for conducting the reform or its best "algorithm." The most rapid return in the matter of saturating the market (I think it would take 2-3 years) could be expected from advancing our agriculture and developing individual cooperative activity everywhere.

No complicated constructions or reconstructions are needed here. All we need to do is gather up and break all of the artificial administrative chains that continue to bind our agriculture and individual-cooperative sector. In rural areas we do not need any (none!) administration or, correspondingly, any administrative agencies with management functions. We do not need any—neither open nor concealed—forms of requisitioning farm products, that is, mandatory planned deliveries, for all of the products of rural areas have nowhere to go outside of our country and even through purely commercial relations most of them will not go beyond the state elevators and meat combines.

I am convinced that in the individual-cooperative sector we should refrain from the custom that is inherent today in all of our administrative-financial system of considering first of all money in the pocket of small producers and cooperators and then considering (if it is considered at all) what they give to the state, to the market, and to all of us. Let us first show ourselves to this sector—for 6 decades we have suffocated it by all possible methods. And today it needs privileges, incentives to permit production and not prohibitive measures that nip any initiative in the bud if it barely goes beyond the limits arbitrarily established in some office where they have already lost any idea of what real life is.

But with respect to one issue I do not agree entirely with V. Selyunin. This is the question of price reform.

A price reform should, as we know, solve two major problems. First, fully eliminate the deformations in price proportions that have accumulated since the end of the 1920's, above all artificial reduction of prices for fuel, raw materials, foodstuffs, services, and the equally artificial increase in prices for machines, equipment, and all industrial consumer goods; second, determine a new policy of who actually will establish prices in the country—the State Committee for Prices or the ministry or the market itself through contractual relations between the buyer and seller. V. Selyunin (saying that the effects from the first measure will be short-term and therefore insignificant), it seems to me, underestimates the absurdity of the distorted world and those price conditions in which our economy is still living: simplifying it, today we actually do not know what in reality is more valuable—gold or brick. First of all we must establish real price proportions that are close to the ones used throughout the entire world today. This can be done administratively, by a direct order from above, of course having provided the corresponding monetary and other compensation to the population for whom the abolition of state price subsidies will mean a direct loss. And having taken this administrative step and established objective, realistic price proportions, it is possible to move on.

Where? So far, apparently, the State Committee for Prices is maintaining traditional, official positions: they say we are thinking of an "intelligent," "good" price that is carefully calculated by the committee girls on a computer and then we will apply it, send it down as a directive to real life, that is, to industry. This "normative price" will take into account the average expenditures and the average production conditions for one commodity or another (with a certain attraction to better conditions) and industry should accept it without any question and act according to it. In my opinion this is a most dangerous illusion! Again it is not real life but religious belief in the organization, in the fact that one can see more clearly from above that it is not "real minds" that should be subordinated to real economic reality, but real economics should be subordinate to them.

How many prices can the chairman of the State Committee for Prices and his coworkers "calculate" more or less carefully, more or less objectively? With any computer? Dozens of prices, hundreds of prices? Hardly more because thousands and tens of thousands of prices (because actually each price with all of its proportions and relations in the national economy) physically cannot be objectively "calculated" on any thinking computer. And how many prices do we actually need in reality? In the country we produced 25 million kinds of items and, consequently, we need just as many prices. No organization, no computers can calculate them. I am not speaking about the mandatory flexibility in the conditions envisioned by the reform (competitiveness, the initiative of the enterprises, the struggle for scientific and technical progress), the mobility of the prices, or their attraction to a condition of balance between supply and demand.

No, we do not need illusions, we do not need to deceive ourselves—this is a task that is beyond the capabilities of any state committee for prices, even if we increase its staff by a factor of hundreds or thousands. This can only be done by the market, only by the free movement of supply and demand, only by direct contractual relations between the supplier and the consumer. The more so since we have set for ourselves the task of eliminating the monopoly of the producer in the national economy and in the absence of a monopoly this is a true market that is not constrained by anyone. Not a second-hand market somewhere in Malakhovka, as many of us understand this word in our illiteracy, but precisely a market, that is, a normal condition of any process of reproduction based on deep social division of labor and specialization of production.

It is sad, dear comrades! When will we finally return to common sense, to the way economic life has developed over the centuries, and when will we stop sitting in our offices thinking up all kinds of "mental" constructs, one more complicated than the other, one more impractical than the other? V. Selyunin justifiably asks: "In the end will our failures teach us anything or not? Will we return to the economic devices of management or not?"

Sometimes it seems to me that herein lies the main philosophical question of all the restructuring. To continue to constrain life or to help life, to help those healthy, natural forces that are included in it? We have not yet given a full-fledged answer to this question. And we must answer for the destiny of the country and the destiny of the people have been placed in the balance. And this means the destiny of each one of us.

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## INVESTMENT, PRICES, BUDGET, FINANCE

### Price Parity Between Agricultural, Industrial Products Needed

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[Article by I. Lukinov, academician of the UkSSR Academy of Sciences, director of the Institute of Economics of the UkSSR Academy of Sciences: "Price Parity"]

[Text] An in-depth analysis of the economic situation in the APK system reveals contradictory tendencies. The active agrarian policy of the party in the channel of the general strategy of restructuring gives a new impetus to the beginning of positive changes, increase in the cost-accounting interest of rural workers, and rise in the

production of grain and livestock products. The rate of output of foodstuffs by the processing industry has increased somewhat.

Positive changes in the intensification and growth of farm income have appeared. The number of farms with the highest and most stable income has increased after the adoption of economic measures by the May (1982) Plenum of the CPSU Central Committee.

However, against this background the economic situation of many kolkhozes, sovkhozes, processing enterprises, and other APK sectors continues to remain extremely unstable and in many cases has a tendency toward worsening.

In 1983-1987, after the introduction of additional price and financial-credit levers of improvement in the rural economy, the absolute amount of net income (profit) received by kolkhozes and sovkhozes greatly fluctuated throughout the years with a tendency toward a relative reduction in profitability owing to the change in costs. The relative recovery of current costs (production costs) was lowered from 22 to 18 percent and of fixed and material circulating capital, from 7.3 to 5.5 percent (1987). Net income—the most important indicator of evaluating the economic condition of farms—again proved to be much lower than the socially necessary normative for planned rates of production growth and a qualitative replacement of capital, as well as more than twofold lower than the profitability of industrial production.

In the country there are now about 15 percent of unprofitable and approximately 43 percent of low-profitability farms, which do not have the possibility of forming cost-accounting accumulation and incentive funds in the necessary volumes. Owing to the lack or shortage of accumulations, the mechanism of self-support and self-financing has proved to be inoperative for them. A paradoxical situation is created: In order to sharply increase the efficiency of management, it is necessary to change over to full cost accounting and the lease contract immediately and, in order that they may operate efficiently, appropriate economic prerequisites are needed. The level of productivity, labor productivity, and return on resources at about 60 percent of the farms remains low. Wages are increasing more rapidly than production efficiency. The capital-labor ratio on UkSSR farms, as throughout the country, is growing, whereas output-capital continues to drop. However, debts are increasing, reaching almost 146 billion rubles in the last 5 years. Along with this there is also budget financing. Agriculture accounts for only 14.3 percent of the total volume of annual national economic profit. This in no way corresponds to the planned rates and proportions of balanced development of the country's food complex and, moreover, of the entire national economy.

With respect to the processing industry, which in its nature is the most profitable, it nevertheless proved to be

in a critical situation in the agroprom. Whereas, according to our calculations, the country's entire industry has an average level of capital recovery with total monetary accumulations of 16.9 percent, APK processing sectors, owing to artificial price deformations compensated with budget subsidies, have as much as 21.5 percent of unprofitableness. At the same time, recovery with profit, conversely, makes up 14.2 percent here, as compared with 12.5 percent throughout the industry. At the same time, in 1986 the food and light industry brought 57 billion rubles of the turnover tax to the state budget.

As we see, an extremely complicated—more accurately, entangled—system of distribution relations produced by the era of stagnation and wage leveling has emerged. This system places sectors, which are most efficient from the standpoint of national economic and cost-accounting evaluation criteria, in the unequal and even humiliating position of constant applicants for someone's "help." The Institute of Economics of the U.S.S.R. Academy of Sciences carefully followed the course of the economic experiment held in the republic's food industry and generalized its results.

Before the experiment the lion's share of the profit and depreciation was centralized and meager appropriations were allocated from the budget for the sector's investments. In essence, this paralyzed the process of capital replacement and led to an incredible aging of technologies. Our processing industry lags decades behind the present world level. Furthermore, the debts of enterprises of food sectors to the bank accumulated consistently, reaching 2.4 billion rubles in the republic. In connection with the beginning of the experiment the payment of debts had to be postponed. In the course of it the proportions in income distribution were shifted toward an increase in cost-accounting funds, that is, about one-fourth of the profit and depreciation began to be left to enterprises. This brought a noticeable economic revival—a big economic maneuverability and cost-accounting interest of collectives to work efficiently and to introduce cost-accounting contract forms of labor organization and stimulation.

Following the experience of industrial enterprises and associations of other departments the transfer of labor collectives to full cost accounting is accompanied by the reservation of a significant share of the depreciation and approximately 60 percent of the obtained profit to enterprises. With due regard for this, apparently, it is advisable to change the share of funds left to APK processing enterprises. This would make it possible, provided machine building promptly fulfills orders for new resource saving technologies, to sharply accelerate the technological renovation of existing production facilities. It would also become possible, on the basis of cost-accounting cooperation of resources together with kolkhozes and sovkhozes, to more rapidly expand existing and to establish new processing enterprises, which, obviously, are insufficient.

Evidently, if we do not seriously engage in the development of the processing industry near places of production of products on the basis of utilization of the latest technologies, which sharply expand the assortment of products ready for consumption, we will not manage to reduce vast losses and to satiate the food market before long. This path has already been reliably tested by many advanced farms. Under the conditions of the all possible development of cooperation it also promises a fuller utilization of local resources, in particular labor resources, and the retention of youth in rural areas. Of course, rushing from one extreme to another is inadmissible in this important matter. There are reliable methods of calculating optimal variants of directly integrating the production and processing of raw materials and of forming efficient economic systems.

In accordance with the decisions of the June (1987) Plenum of the CPSU Central Committee radical changes will have to be made in the APK economic mechanism.

First, according to preliminary calculations, the abolition of price subsidies and the increase in prices of fuel and power resources, means of production, and services will increase one-time and current expenditures of kolkhozes and sovkhozes by no less than 30 billion rubles, which presupposes a corresponding rise in purchase prices.

Second, apparently, it will be necessary to compensate for the abolished price markups for low-profitability and unprofitable farms, as well as for the sum of introduced payments for resources. Of course, the transition to self-financing is connected with giving up uncompensated budgetary appropriations. Apparently, however, it is impossible to eliminate them completely right away. Therefore, it is advisable to grant them on a cost-accounting basis. Furthermore, the existing average level of capital recovery (ratio of profit to productive capital) of kolkhozes and sovkhozes, which makes up 5 or 6 percent, is highly critical. Calculations show that under full cost accounting its minimal level should not drop below 10 percent. The circumstance that the time of payment of previously postponed debts amounting to a very large sum will begin by the end of the 13th Five-Year Plan should also be taken into consideration. The solution of these acute problems, which, essentially, affect the interests of all society and of every person, is based on the need, so to speak, for a double regulation of both processes of formation of expenditures and results on farms and of the effect of the price factor on them.

First of all, it is necessary to overcome the effect of the expenditure mechanism in practice and to ensure on every farm an efficient operational management of expenditures and results through genuine proprietary interest and responsibility of every cost-accounting unit, which changed over to the family or group contract. This will make it possible to avoid an outstripping of the rates of extensive increase in funds and expenditures as compared with the growth of output and income.



The selection and realization of the most effective economic solutions giving a high return with minimal costs is the greatest art of economic management not only in our country, but also throughout the modern world. It is inadmissible, as this often happened earlier, only to record growing costs in monthly, quarterly, semiannual, or annual report data, when expenditures have already been incurred and it is impossible to correct anything. A radical restructuring and by no means only at enterprises of the APK system, but in the entire national economy, an efficient realization of investments and expenditures for a specific result, and satisfaction of consumer needs are especially important in this matter. Without promptly regulating processes of formation of expenditures and results—the foundation for the entire management of the economy—the talks about lowering production costs and resource intensiveness and increasing recovery and income will remain empty.

However, with this measure alone the situation in the APK economy cannot be rectified now, especially when cost rising tendencies are manifested in related spheres of industry, beginning with extractive sectors. Research shows that the growing costs, value, and prices of fuel and raw-material resources and products of the processing industry, machine building, and construction roll as a snow ball over to the value of output of subsequent, right up to final, reproduction stages. In order to break the tendency toward a global rise in the cost of production in the entire economic cycle, first of all, it is necessary to transform scientific and technical progress into a reliable cost reducing factor and to develop and manufacture on a mass scale resource saving technological systems for rapidly equipping enterprises with them.

Under the effect of subjective strata of the past and disregard for objective economic laws nor does the existing price and financial-credit mechanism properly stimulate the renovation of production and acceleration of economic growth. State trade in food products, as in other goods, at prices not meeting their real value disturbs the equivalence of exchange and the general balance, aggravates the deficit problem, and inevitably leads to speculative tendencies.

Prices are the most sensitive nerves of economic regulation. Their artificial overstatement or understatement leads not only to corresponding overflows of income, but also to deformations of the economic structure. It is one thing when the difference between the price and value is accumulated in the state budget and is used for public interests and quite another when it is in the hands of smart operators, bribe takers, and speculators, who get rich at the expense of the labor income of consumers.

For a long period agriculture suffered from an inequivalent exchange. Even now some people, owing to misunderstanding, are inclined to think that the policy of lowering retail prices of food products conducted during the difficult postwar time was almost the crowning

achievement of state wisdom. In fact, however, it was based on purely symbolic prices of state procurements of agricultural products and noncorrespondence of payment in kind to the real efficiency of services of machine and tractor stations. As a result, peasants received a meager payment for their labor in the public sector, which was on the verge of destruction.

Up to the present, despite the repeatedly taken measures to level prices, the exchange of industrial and agricultural products has remained unbalanced and does not have a parity price basis. State retail prices of foodstuffs, which have been stable for many years, have ceased to perform their main function of compensation for real value. They have broken away from growing costs, wholesale and purchase prices, and movement of the population's income. As a result, serious distortions in the entire currency and financial system have been formed.

The loss of the state, producers, and consumers from price disproportions is obvious.

First, the active effect of the stimulating factor in the growth and reduction of the cost of specific production and of its more flexible adaptation to the changing demand is lost.

Second, as the production of food resources increases, the state has to increase budgetary subsidies at the expense of rising withdrawals of profit and the turnover tax from highly profitable sectors, thereby hampering the rates of their development and technological renovation, and it itself loses a considerable part of the income.

Third, understated planned prices of key food products give rise to an inefficient attitude toward their expenditure and lead to an increase in the deficit and, as a consequence, inflation of market prices.

Not replacing the full value of a specific product to the producer, we thereby stifle his interest in increasing production. The aggravated shortage with the growing demand forces the state to purchase such a product for currency at foreign markets. In especially big amounts this applies to the import of grain, meat products, vegetable crops, and fruits, whose internal production is cheaper.

In order to stabilize economic conditions for the cost-accounting operation of labor collectives and to improve the market situation properly, it is necessary to bring the level and structure of purchase and retail prices of agricultural products and foodstuffs, as well as prices of industrial goods and services, into conformity with the actual value. With due regard for the change in value there is a need for a flexible approach to price regulation and maintenance of an equivalent exchange among related sectors. Then any talks about "superfluous"

assistance to rural areas will cease on their own. Peasants will be truly interested in producing more products more cheaply both in the public and in the private sector and in meeting market demand.

Naturally, it is fully possible to implement the price reform, ensuring compensation for personal income from price changes. In my opinion, forcing a nervous atmosphere around the price revision problem, obviously, pursues an improper goal—disruption of the economic reform.

For the stabilization of the levels of profitability of agricultural enterprises it is important to utilize improved methods of attaining an equivalence of price ratios with due regard for dynamic changes in the volumes and structures of exchanged resources and products of related sectors. Calculations for compensating farms for changes in prices by means of arithmetic comparisons of absolute sums of additional expenditure and income during the base year do not ensure achievements of a price parity and the required normative of profitability. The latter is possible only with due regard for the rates of changes in the level and structure of costs and prices and in the volumes of output and qualitative properties of exchanged goods during the planned long-term period. The simplified approach in this matter often led to disastrous distortions in the price economy and to the undermining of economic interests, which is totally inadmissible.

After the introduction of new wholesale and purchase prices of exchanged industrial and agricultural products (1982-1983) the rise in prices in these sectors continued, but by no means at the same rates. In 1987 the expenditures of kolkhozes in the Ukrainian SSR on the purchase of 1 quintal of mixed feed of the same quality increased from 12.03 to 15.25 rubles as compared with the 1983 level. The price per head of purchased animals of the basic herd increased from 855 to 912 rubles respectively for cattle, that is, by 6.7 percent, and for sows, from 328 to 421 rubles, or by 28.4 percent. The purchase prices of fattening groups of young bulls increased by 11.3 percent and of gilts, by 7.3 percent and the value of a place for one animal in livestock barns, by 17 percent. The balance value of 1 hp of the tractor pool increased by 8.9 percent and expenditures on major repairs per 100 rubles of fixed capital rose by 16.9 percent. However, official price indices do not reflect these changes. Despite the higher rates of increase in agricultural products, it was not possible to lower their production costs. For all types of the gross agricultural product per 100 rubles production costs rose by 5 percent during the analyzed 5-year period.

At the same time, owing to price markups for quality and for the sale of products in excess of the level of the preceding five-year plan, in 1987 the average purchase prices of Ukrainian kolkhozes rose by 7.1 percent as compared with the 1983 level. However, it would be

erroneous to credit this increase characterizing qualitative shifts in management to sources compensating for a rise in prices for the purchase of means of production by farms.

Such a compensation—more accurately, price correction—should be made as needed, more promptly, not bringing matters to critical price disproportions requiring radical price and financial reforms accompanied by profound economic upheavals. The price parity should be calculated in a substantiated manner only with the strictest consideration of structural and qualitative shifts in sold and purchased products. In calculations it is also important to reflect current price changes, all possible price markups and discounts, and the introduction of a system of contractual prices sharply changing the price balance.

Scientists have developed methods of determining price parities, which it is advisable to utilize in economic management and in the regulation of the cost-accounting activity of associations and enterprises in the industry and the APK system, which would make it possible to eliminate one-sided intersectorial overflows of income and distortions in price equivalence. At the same time, an investigation of problems of overcoming inflationary processes in order to prevent the next spiral in an unfounded price rise is of great importance. It should be considered that the existing mechanism of formation of combined costs, public value, and prices does not guarantee us against these negative and dangerous phenomena. The ideas of the antiexpenditure mechanism have not yet become properly effective. Great persistence will be needed in order to embody them in the system of highly intensive and efficient management.

11439

## REGIONAL DEVELOPMENT

### Regional Differences, Republic, All-Union Relationships Viewed

18200258 Moscow SOTSIALISTICHESKAYA  
INDUSTRIYA in Russian 16 Jul 88 p 2

[Article by Yu. Vorobevskiy: "How to Balance the Scales of Justice"]

[Text] *At a bazaar we complain about, and watch the weights and buy, for example, Belorussian potatoes and Mandarin oranges from southern regions. We do not doubt that the labor costs for growing them are roughly equal. However, if in the first case only small change gets us heaps of them, in the second we have to hand over large bills. What an uneven contribution to the pockets of these republics' populations. However, nothing can be done, prices are dictated by the law of market economics, the*

*relationship between supply and demand. Nevertheless, the scales of justice are clearly uneven. What about the principle of "to each according to labor?"*

What if one projects this situation from the sales counter to oblasts and republics? It is not an empty question. Ever greater attention is being given to problems of regional economies. It is noted in the 19th All-Union Party Conference resolution "On Relations Between the Nationalities" that "It is necessary arrange things so that working people are well aware of what each republic or oblast contributes to the country's economy and how much it obtains."

The times are also raising the question of converting republics and regions to cost accounting principles and of precisely determining their contribution to solving the all-union program. This means that entire territories will become partners in selling and buying. The market must not be allowed to become a bazaar full of mutual grudges. What about situations similar to the above one with potatoes and Mandarin oranges? Specialists think that must take into account differential rent, which includes various natural conditions. Payments for land and other resources should become the weights which balance the scales of justice. These are economic mechanisms and that means they are subject to regulation.

Partners on cost accounting need equal conditions. There must be defenses against false rumours. One frequently hears: Russia eats the entire country, but lives worse than everyone. Something similar comes from the Baltic. From Central Asia they object: If we were paid for our cotton at world market prices... Then Siberians think about "their" oil. Why doesn't a region where extremely rich deposits are being developed turn into a new Kuwait?

Any shortage gives rise to speculation. A scarcity of scientific knowledge is a different type of "swindle." Who will owe whom? One thing is clear—social scientists are in debt to us all. The interest on this debt—is violations of the principle of socialist justice, the appearance of ecological damage and irrational economic management. This is how the question was posed at the first session of the USSR Academy of Sciences' Council on Regional Economic Problems.

"Economists, sociologists and geographers from the academy and from state planning institutes in all union republics are equally represented in the new council," says A. Granberg, council co-chairman and correspondent member of the USSR Academy of Sciences. This accelerates the practical introduction of research results. One of the most important tasks is to develop a theory for calculating the national income of republics. Resources must be allocated for their development and estimates made of their contribution to the general economy.

Last year the growth rate for national income was 8 percent in Belourssia, 2 percent in Russia, 0 in Tajikistan, while in Moldavia it was negative figure. To a considerable extent this is due to reduced production of alcoholic beverages. Given the present system of price formation this has an influence upon specific features of regional economies.

Do we always know what we are putting on the scales of justice? In calculating national income there is the problem of so-called double counting. The positive entries in a republic where, for example, there is a well-developed processing industry, include the cost of extracting and transporting raw materials in from other regions. This creates unequal conditions for neighbors. It involves both double counting and the structure of sectors.

L. Kozlov, council co-chairman, thinks, "The selection of sites for the construction of new enterprises should meet the interests of the state as a whole and each individual territory. They are mutually linked. Blossoming territories are advantageous to our government. Therefore we consider that an important direction in the council's work is to improve preplanning substantiation of the development and location of productive forces in the USSR."

V. Kvint, deputy chairman of the council, continues, "Regional cost accounting requires not only balancing the results and national income—costs must also be included. This is another theme of research begun under the aegis of the council. It is necessary to scientifically substantiate differential payments for resources which territories require of enterprises. Normatives should include their scarcities in a region. As long as resources are practically free, enterprises will fight like a conqueror for their interests in various regions. They will give a national coloration to purely economic contradictions between agencies and territories, creating the illusion that somebody "at the center" has intended the ruin of local environments.

This discussion involves the rational use not only of natural, but also labor resources. True, the USSR State Committee for Labor and Social Problems has introduced differential payments for labor. But how? There are only two alternatives: an enterprise pays either 300 or 200 rubles for each worker it attracts. Life dictates something completely different. Possibly payments should not be made at all in the labor surplus regions of the south, creating incentives for the creation of new enterprises here. In Siberia, on the other hand, normal living conditions should be created. However, in addition to other problems, it is expensive to build housing there.

Until we take this into account, plans and directions for the accelerated development of Siberia will remain only good intentions. In the 1970's the number of jobs available here increased by almost one-fifth, but only enough housing and service facilities were built to support a 1.5 percent increase in the population without reducing general standards.



Enterprises now only spend 40 percent of the resources necessary for reproducing cadre potential. The remaining is allocated through the budget by redistributing national income. Republic organs have practically no influence upon plants and factories subordinate to the USSR Council of Ministers.

Enterprise workers and city populations do not have equal rights. Labor collectives operate under the Law on State Enterprises, which provides for different benefits, depending upon profits. The responsibilities of local authorities to their own populations are not very well defined.

At a session the new council was presented with a proposal from associates at the USSR Academy of Sciences' Institute for the Economics and Organization of Industrial Production which provides substantiation for a law on territories. It should regulate all levels of interaction between councils and enterprises and the population. It can be agreed that this is very important for our multi-nationality country.

11574

**Enterprises To Pay More for Moscow Locations**  
*18200294 Moscow IZVESTIYA in Russian 10 Sep 88 p 2*

[Interview conducted by V. Zaykin with A. Sigedinov, chief of a department at the Institute for Economic Problems of the Comprehensive Development of Moscow's Economy: "How Much Does Land Cost in the Capital?"]

[Text] An economic evaluation of land in Moscow has been worked out. Now all organizations located on the capital's territory will have to pay a lot of money for the use of its land. How much will the land cost? We asked A. Sigedinov, chief of a department at the Institute for Economic Problems of the Comprehensive Development of Moscow's Economy, to tell us about this.

[Answer] In order to satisfy the requests of all ministries for construction of their enterprises in Moscow, our capital would turn into a territory entirely covered by plants and factories. Why? Because the construction of enterprises in large cities is extremely advantageous for the ministries. Here there is a ramified system of communications, transportation and labor resources. An enterprise in a city such as Moscow has everything ready for it. The rent for land is laughable. It varies from R3,000 to R5,000 per hectare. Should a plant, which costs, let's say, R15 million, pay 3-5,000 a year?

Therefore, enterprises and organizations located in the capital do not value land, they have a devil-may-care attitude toward it. All the demands and persuasion to yield even an inch of land for the city's needs meet with the indifferent claim: "The government located us here.

We know nothing more than that." The Moscow soviet has practically no economic measures to influence enterprises located on its territory.

In general, we are not used to economizing on land. The density of enterprises per hectare is  $\frac{1}{2}$  to  $\frac{3}{4}$  as much as in the West. The so-called "spread out" construction predominates. Of course, if land costs practically nothing, why complain? But in New York they are demolishing 30-story buildings and putting up 100-story ones. The cost of land directly influences the architectural profile of cities.

In order to make various enterprises regard the land zealously, it was decided to carry out its economic evaluation.

[Question] Can this measure be connected with the Moscow soviet's decision to remove from Moscow ecologically harmful and non-profile enterprises?

[Answer] Of course. I think that for many of them the land will not be affordable. That is, of course, if payment for the land is not included in the cost of production (as some economists suggested to us) but will be deducted from profits. Then this will immediately be reflected in the enterprises' incomes, in their guarantees for housing and other social benefits. The labor collective may force the leadership of the plant or factory to reduce the area it occupies. The question may arise about the efficacy of keeping the given plant in Moscow. In the case where the rent for land is included in the production cost of goods there is no reason for the enterprise to economize on land: the consumer will pay for it.

[Question] The basic argument of opponents to the land evaluation is that if large payments for land are established this will harm basically those enterprises which the cities need, such as, let's say, light industry or services. Whereas an enterprise of, let's say, the chemical or processing industry will pay for its excess with a generous hand. What do we do about this?

[Answer] In carrying out the land evaluation, we stipulated preferential rates for enterprises and organizations which are extremely necessary for the city. This work is still not finished. But I can say that we will determine the degree of "usefulness" for Moscow of one or another enterprise.

[Question] Here is one more argument of your opponents. If administrative measures are used in removing enterprises and organizations from Moscow, why are economic measures necessary?

[Answer] I am sure that administrative measures alone will not solve the problem of removing the enterprises. We need a combination of both types of measures. It is

necessary to remember that we want to make the enterprises regard the land zealously. Both those that are already located in Moscow, and those that will be removed. This cannot be avoided.

[Question] How much will land cost?

[Answer] It varies from R3 million to R200,000 per hectare in the Sadovskiy [Garden] Ring and up to R1 million beyond the Ring Road. This is payment for communications, roads, transportation and the social infrastructure which has been created in one or another region of the city. In addition to this we evaluated the beauty and prestige of various rayons of Moscow. How does one evaluate beauty? We took into account the rayons' incomes from foreign and Soviet tourism and from that received an indicator of beauty. The whole world pays for the prestige of the city's rayons. How to evaluate it? We decided to do this through a housing exchange. It showed that for housing on Leningrad Prospekt a Muscovite, moving from Cheremushk, will give up a significant part of his living area. We calculated the differences in a housing exchange and came up with a price for prestige.

In this way we compiled the general price of land.

[Question] Is this money a one-time payment which the enterprises pay to the gorispolkom for an allotment of land under construction?

[Answer] Yes. Each year the rent will comprise from R15,000 to R80,000. But this is still being worked out.

Will the city take a lot or a little for the land? In comparison with the West, we don't raise it very high. In New York, for example, land in the center of the city costs 35 million dollars and on the periphery, 1 million. But in comparison with what the Moscow gorispolkom now receives, it is solid money. We are talking about hundreds of millions of rubles which will go into the city budget. It will go for public services, for housing, for the real needs of the city. Now the city spends on the order of R20 million for capital investment for the five-year plan. With the general transfer to self-payback Moscow should finance itself. Where will the city get the money? The answer: by trade in its resources, and land is one of them.

[Question] Can the rent for land be a stimulus for environmental protection?

[Answer] Undoubtedly. Economic sanctions have been stipulated for enterprises which pollute the environment.

Of course, Moscow has grown unusually. The look of the city is far from perfect. The capital literally needs to be saved, to be fenced off from the enterprises breaking into it. UD/325

## RAIL SYSTEMS

### Conference Notes Railway Performance, Goals

18290136a Moscow GUDOK in Russian 6 Jul 88 p 1

[Article by V. Vasilyev, "Guide for the Second Half of the Year"; under the "From the Network Goals Conference" rubric]

[Text] The railroad workers' primary freight hauling goal for the second half of the year is two billion, one hundred million tons. This exceeds the index for six months of 1987 by almost 34 million tons.

Is this within the power of the transportation workers? It appears so based on their work in the first half of the year. For that period they processed 50 percent of the yearly volume of haulage and received about 300 million rubles profit over and above the plan. With the exception of the Lvovskiy line, all lines managed the plan.

The application of progressive forms of labor organization, new equipment, and widespread socialist competition in honor of the 19th All-Union CPSU Conference contributed to their success.

All the same, this rhythm of the transport conveyor was not without its interruptions. The situation in June was especially alarming. At the general network goals conference on 2 July, the Minister of Railways, N. S. Konarev, led a discussion about this and about the branch's tasks for fulfilling the haulage plan for July and the second half of the year.

In the last month of the first half of the year, loading and unloading "fell" sharply and freight car turnaround slowed, especially on the Tselinnyy and Donetsk lines.

The freight list plan progressed poorly. Three million tons of state orders, including timber, paper, fertilizer, and flux were not delivered to consumers...

Hasty organization of haulage and late delivery of loaded freight cars is one reason for the lag, as a result of which, for example, more than half a million tons of lumber was not shipped. The Sverdlovsk and Gorkiy lines hold the "lead" positions in stoppages. The Kuybyshev line did not provide for shipment of oil products, and the Yuzhnaya and Gorkiy lines delayed shipment of a large quantity of cement. In June, average axle load dropped by almost 70 kilograms.

Off-loading was not in the best of shape. On a given day on the rail network, up to 9000 cars were not unloaded. Daily, 1170 of them stood idle on the Transcaucasus line and 970 on the Pribaltic line. As was noted at the goals conference, inattention to the organization of local work and irregular freight operations is one of the reasons for this. For in the first half of the day, only 29 percent of the rolling stock is unloaded.

The case with open cars was alarming. Twenty-eight lines were unable to cope with the plan for their off-loading. Everyday in the rail network, 4600 units were not unloaded. Traffic control declined and locomotives were poorly utilized. Today, almost 1500 diesel and electric locomotives stand idle for one reason or another.

It is June and time for heavy passenger traffic, yet only 85 percent of the trains arrive at their destination on schedule. Passenger conveyance on the Azerbaydzhan, Kemerovo, Western Siberian, Transcaucasus, North Caucasus, and Sverdlovsk lines is extremely unsatisfactory. In June, a great many violations of technical operations regulations were tolerated and this led to work defects and train wrecks.

All line, subunit, and transport enterprise supervisors must direct their attention to the correlation between growth in labor productivity and wages. The increase in productivity exceeds the rise in wages by only 0.2 percent (18 and 17.8 respectively), though at the beginning of the year the difference was 5 percent. There is a danger that this negative tendency will develop even further.

Specific measures were identified to overcome shortcomings and fulfill the tasks of the second half of the year.

13254

### Minister Addresses Problem Areas

18290136b Moscow GUDOK in Russian 8 Jul 88 p 1

[Article by correspondent V. Chistov under the "From the Ministry of Railways Board Meeting" rubric: "Time for Specific Concerns"; first paragraph is GUDOK introduction]

[Text] This meeting of the Board of the Ministry of Railways, to the agenda of which was submitted the problem "Of primary measures in railway transportation for carrying out the resolutions of the 19th All-Union Party Conference," was held on the fourth day after the work of the party forum was completed. Railroad workers' delegates met with management workers from the ministry and members of the Central Committee trade-union presidium prior to the board meeting.

The conversation which took place at the board meeting—open and with no smoothing of the rough edges—is characteristic of the critical approach with which the nation's communists assessed the progress of perestroika. In his report, the Minister of Railways, N. S. Konarev, critically examined not only the negative phenomena in railway transport work but, in smoothing the way for the future, tried to come to an understanding about the results with which railway workers completed 2 and one half years of the current five-year plan.



It would seem that, not for the first time, the question of today's problems was put to the board—the problems of traffic safety, passenger conveyance, the ever worsening technical state of the track, and the frankly poor situation with passenger locomotives in which, in order to pull passenger trains on other lines, powerful mainline electric and diesel locomotives must be diverted; and there are not enough of them.

But this time there were no allusions to objective difficulties, shortages of rails or shuntings, rail cars or locomotives (although the transport machine building industry is heavily in the railroad worker's debt). Rather the discussion concerned why we deal so poorly with the resources we have, and about what kind of leader is needed today.

There is, after all, no other excuse but poor labor organization for the fact that the Yuzhnaya line held over for 2 to 3 hours every third "window" assigned to it. Only poor quality of the work can explain the fact that, after general overhaul of the route, the speed of train traffic is not increasing and the number of limitations imposed daily on railway engineers is not decreasing. And who can say how the emphasis only on general track overhaul with total disregard for its technical upkeep will affect transport work in the future?

But is there a way out of this situation which we have created when you consider that, on the whole throughout the rail network, the route installation staff is undermanned by 30 percent, and on some lines the cadre situation is quite critical? It turns out that there is. Managers from the engineers main administration proposed quite recently that technical upkeep of the track be contracted out (under a family type contract). No doubt this proposal will get a hostile reception, but right now it is winning more and more supporters, both locally and at the ministry.

And can we accept the fact today that, with the severe shortage of locomotives, 300 electric and 400 diesel locomotives pull in daily for unscheduled maintenance and are taken out of service. On the whole throughout the rail network, about 2000 vehicles are standing idle.

Railroad workers, converting to cost-accounting and self-financing, realized impressive profits in the first half of the year. At the board meeting, however, they spoke with alarm about the fact that, with the growth in the volume of freight hauling, the return received from the profits has hardly increased over the last two years.

The situation is also bad with regard to services provided to the population for pay, especially so-called low-profile services. As usual, locomotive workers, railway engineers, and rail car workers are in no hurry to master output of consumer goods. And under economic accountability, when transport services are in need of fundamental technical re-equipping, can we accept the fact that the primary scientific research institute for

transportation, VNIIZhT, takes 6-8 years for design development and more than 10 years in some cases? So, having failed to thrive, they are aging technologically; not taking root to grow but settling on the shelf.

At the board meeting, perhaps for the first time, so pointed an issue as the struggle against bureaucracy in the ministry apparatus and in the main administration of rail lines was raised. How specifically does this bureaucracy manifest itself? In the endless paper shuffling, in the low level of executive discipline, and in dragging out the resolution of important problems. The board members also discussed how endless meetings interfere with work. Many critical statements were made about the organization and conduct of the board meetings themselves.

The board adopted a detailed resolution in which they identified specific measures aimed at successfully completing the tasks levied by the 19th All-Union CPSU Conference.

13254

**First 'BAMTRANSSTROY' Conference Held**  
*18290136c Moscow GUDOK in Russian 9 Jul 88 p 2*

[Article by correspondent M. Morozov: "To Strive for Partnership"; first paragraph is GUDOK introduction]

[Text] More than 200 delegates from all sections of the Baykal-Amur Mainline [BAM] took part in the first conference of the "BAMTRANSSTROY" design and industrial construction association. The conference summed up the results of the work of the BAM builders under new management conditions, outlined tasks for the future, elected a new association chief and labor collective council, and reviewed the status of the collective and the association.

Speaking at the conference, V. Barabash, secretary of the Amur party obkom, said something interesting, "...all that remains is to strive for partnership, for there are no partner type relations at either the GOSPLAN, GOSSTROY, or GOSBANK level, or the trust or customer level." This is a true reflection and it found confirmation in the opinions of the delegates, both on the eve of and during the course of the conference.

Let's look at what happened when the Law on State Enterprises was implemented. Collectives of those BAM trusts which (with rare exceptions) are very strong with respect to production but weak economically felt free. The yearning for independence which had found practical grounds in the processes of restructuring overshadowed the need for partnership at first, even though economic partnership itself is an indispensable condition of that very same restructuring. While justifiably criticizing the administrative and command principles

of management, some supervisors began to reason as follows: since no-one can order me about, I have become my own boss and need only persuade the members of the labor collective council to raise their hands in favor of my proposal. The vision of such a supervisor is limited to his own enterprise's sphere of interests.

Thus the Shimanovskiy construction industry combine wants to sell 2.5 thousand cubic meters of reinforced concrete products (and has already sold 2.7 thousand) by direct agreement (read, on the side), just as the "TYN-DATRANSSTROY" trust wants to sell its woodworking combine in order to better its position. In doing this, both forget completely that, because of a shortage of reinforced concrete products, brigades of BAM workers are standing idle and that joiner's shops are in short supply.

Disregarding the common interest in favor of one's own prosperity only hurts the cause. At times their actions are ugly. Speaking before the collective, managers "openly and soundly" argue that the "self-made" enterprise centralizes without any limits. The reaction is clear; to many it begins to seem that, indeed, even the former main administration is "fleecing" the working class. In the face of this, what remains to limit such discussion is the fact that independence for the majority of trusts is illusory: they receive subsidies and are free from budget payments—in short, their own "self-made" means for ensuring their economic independence still obviously are insufficient.

Nevertheless, the conference delegates dedicated the greater part of their speeches to criticism of the system of mutual relations between an association and enterprises itself. Naturally they emphasized limiting the degree of administrative and economic influence over local collectives. The editorial commission counted more than a hundred such proposals and remarks and a great many of them were not voted down.

Also popular in the delegates' speeches was another theme which touches upon all those very same problems of mutual relations between an association and enterprises. But where up to now discussion was about the rights and obligations of the association, now the criticism and wishes of the delegates were directed at managers.

If a paragraph establishing the standards for mutual relations between representatives of organizations were to be written in a directive document, it would appear thus: "Relations between employees of the management organs and the association and employees of the enterprises is built upon a foundation of equality and recognition of a commonality of interests."

If, even recently, the BAM workers had been an agglomerate of collectives and the "GLAVBAMSTROY" administration officially was not part of it but remained

"above" it, then now everything would have fallen into place. A united collective was created on the day of the first "BAMTRANSSTROY" conference...

Many issues raised by the conference delegates concerned organization (in truth, reorganization) of management. For example, the "NIZHNEANGARSK-TRANSSTROY" trust declared that the structure of the association did not satisfy today's requirements. The staff of the association should be reduced and some departments abolished. They also tried to structure a material and technical supply system, having created a single organ concerned with acquisition of all construction items. These and other proposals are still being reviewed.

The 207 delegates and almost one hundred invited party, soviet, trade union and komsomol workers from the BAM area attending the conference turned their attention to the severity and seriousness of the polemic. To my recollection, this was the first, so representative a meeting where the platform was given over, not to staff orators, but to people who represented the interests of the collective, and most importantly, who had the opportunity to influence decisions. Let no one say that perestroika was not working there!

The conference unanimously adopted a document in which the primary aims of the association's activities are stated.

In the area of production, the task of developing a self-owned construction industry base is foremost. Today, plants of the "BAMSTROYKOMPLEKT" trust are not in need of materials, while at the construction sites there is a severe shortage of brick structures. The plant collectives must do everything they can to bring the enterprises to designed capacity more quickly. For greater work efficiency and to increase total volume of output, wider utilization of cooperative and lease principles has been proposed. The association also is working on the idea of setting up joint ventures with foreign firms.

Equipment is another problem. The BAM vehicle pool, to a significant degree, is worn out. The allotment of new domestic equipment does not make up for the losses and spare parts for imported equipment are almost nonexistent. So much so that, in comparison with 1975, the purchase of spare parts in the FRG declined by a factor of nine. Yet at that time the equipment was new. That is the situation now.

Today, in our repair enterprises, 800 different components are made. This is a great help, but it does not solve the problem. It appears that the way out is to earn hard currency ourselves and buy equipment and parts from foreign firms.

According to the calculations of specialists, as early as this year, "BAMTRANSSTROY" will earn 2-2.5 million dollars from the sale of timber, while the prospects are that the combined enterprises will guarantee expansion of the hard currency fund to up to 10 million dollars per year. Simultaneously, we must use the equipment better and this depends upon the builders themselves.

The development of subsidiary agriculture is also in the hands of the labor collectives. The possibilities for getting our own vegetables, beef, pork, and milk rose sharply following the acquisition of sovkhoses in the Amurskaya oblast, so that the problem now is how to manage those riches.

Now we come to a curiosity: at the "TYNDATRANSSTROY," half their hay isn't used and they have plenty of milk. Similar farms in the south are prepared to trade young cattle and pigs, and trade they do—but on the side. Would it not be better, working together, to organize large scale production of fodder so that, despite the proverb, the horses get the oats? Then the Northerners will have their own cheap, fresh milk and meat on their tables and in the kindergartens.

This proposal found support. One point in the conference resolution is that the most sound, stated near term goal of the "BAMTRANSSTROY" PPSO collective is to profit by 85-90 million rubles and to make from that a 20-22 percent hidden profit which will ensure self-financing. This is true independence.

Having rolled up our sleeves to work, each and every one of us must apply himself to economics. The first "harvest" of economic accountability has already been gathered. The results of last year confirm that the introduction of collective contracts has had an explosive effect. But this is only a beginning. Improving attitudes toward economic accountability within the association, mastering new equipment and the technology of labor and resource preservation, combating waste, protecting the interests of the association against illegal claims "from above" and "from the side"—this is everyone's work. And we must strive for partnership for the sake of a greater goal.

It is easier for everyone to cope with difficulties peacefully and, in business contacts, to learn to manage legally and justly.

13254

**Collegium Examines Labor Productivity Issue**  
*18290138a Moscow GUDOK in Russian 6 Jul 88 p 2*

[Article by N. Davydov: "Paper Mechanization: Notes From a Ministry of Railways Collegium Meeting"]

[Text] When one considers that one-third of railroad workers are still engaged in manual labor, the importance of the

ministry's collegium meeting on the comprehensive program for reducing this becomes obvious. In evaluating its implementation the speakers cited figures, percentages, machines and machinery systems. They were literally pouring out a horn of plenty. This is interesting. If you believe all the speakers, then things are not going so badly. However, the share of workers engaged in manual labor in car and track operations on, say the Central Asian Railroad Line, is now reaching 80 percent.

From the collegium meeting rostrum, representatives from the Alma-Ata, Odessa and Central Asian lines painstakingly described how the introduction of flow line techniques at MPS [Ministry of Railways] depots and production bases is reflected in operations, what local experimental groups, efficiency experts and inventors are doing. Active groups are working on electrification, central train control and even the creation of enterprises on cost accounting.

Even with this work, however, the expected increase in labor productivity on, say, the Odessa Line for the remaining two and a half years is only 2 percent. (Railroad workers have obligated themselves to increase it by 28 percent by 1990!) The share of manual labor on this line will only be decreased by 3.6 percent by the end of the five-year plan.

The program for the use of machines on maintenance of way operations, begun in the past five-year plan, has promising prospects. N. Kemezh, the chief engineer for the Main Administration for Track, announced that during this five-year plan it is intended to build more than 1,500 heavy machines. In the past 2.5 years about 3,000 trackmen have been freed.

Is this enough? When one keeps in mind that just through the removal of crossing guards total staff has been reduced by about 9,400 people, one can probably expect much greater effects from mechanization.

As I. Kharlanovich, chief of the Main Administration for Science and Technology, justifiably noted, "There are already quite a few new machines, but they are being introduced individually." In fact, most maintenance of way districts clearly do not have enough modern machinery. While 10 percent of total requirements for aligners and power wrenches have been met, machines for other operations are totally lacking or are just being delivered. Specialists have still not begun, or are slow in their development work on other machines. A. Lisitsyn, the director of VNIIZhT, had to admit that there is still not a solution to rail cutting, a problem as old as the world.

In general, transportation science is substantially lagging behind present day requirements—to sharply reduce the share of inefficient manual labor by railroaders. There are only outlines of a set of measures for car operations. This includes reducing the number of repair worker job slots through mechanization. An automated robotized



inspection system is being created. Locomotive engineers still do not have reliable electronic speedometers and recorders, therefore they have to maintain about 2,000 speed recorder decoders.

The introduction of document free transportation techniques can have an important effect. This will free about 100,000 baggage clerks, workers and employees at freight offices. Most importantly, it will reduce transportation costs, as 10 percent of total costs are due to the manual processing of documents.

In short, there are more than enough specific points for applying the efforts of scientists, designers, inventors and efficiency experts. Unfortunately far from all of them, even the most pressing, have become part of the comprehensive program worked out two years ago. Therefore individual technical measures appear far-fetched and do not result in substantial reductions in manual labor.

The Main Administration for Rolling Stock Repair and Spare Parts Production was seriously criticized at the collegium meeting. In most cases its enterprises are the ones slowing down the production of new equipment.

In the past three years repair workers' potential has almost doubled. It now consists of 70 plants, 43 of them equipped with numerically controlled machine tools. By the end of the five-year plan it is intended to convert all rolling stock repair to conveyor line methods. There are quite substantial reserves.

It was with great interest that the collegium listened to K. Mashay, deputy chief for experimental work, PMS-6 [not further identified] Pridneprovskiy, and honored efficiency expert in the Ukraine. In the 10 years his small experimental group has existed it has introduced unique innovations in track maintenance and repair. These include the ShchOMMF gravel cleaning machine, able to clean ballast down to 25-30 centimeters deep, a leveling and tamping machine which frees at least 200 people for these operations performed during "windows" in traffic, semi-automatic flow lines for attaching or removing rails from ties, and many other machines. During these years workers in the group obtained 34 inventor's certificates.

The Mashay group is not alone. Great contributions are made by similar associations of enthusiasts on the South Urals, Gorkiy, Moscow, Moldavia and other mainlines. However, as speakers noted, these collectives' potentials are not fully utilized. Moreover, this work is hindered by poor supplies of materials and equipment. They still have to use the old procedure of ordering things two years in advance.

"How can I know what will be needed in even a month," said K. Mashay. "This depends upon what has to be done... There is only one way out—setting up, at the

material-technical supply service, a special fund for inventions and rationalizations. If not, some ideas for mechanization will remain only on paper.

Similar thoughts were expressed by D. Matveenko, an honored inventor of the USSR, whom I recently met on the Kishinev Maintenance of Way District. The experimental group he heads is now working on improvements in equipment for welding old rails in place. Compared to existing techniques this can reduce labor intensiveness and triple labor productivity during this operation. At the PTKB TsP [Possibly: Planning and Technological Office for Track Administration] they began to manufacture fittings, but work was stopped because of... 2.5 kilowatt engines. Orders were placed for them, but they have waiting for them for over a month. Suppliers are trying to dig them up at all bases, even in Central Asia, but have found none.

"How can we work this way?" complained Dmitriy Dmitriyevich. "I should be building the device, but instead I'm on the telephone for entire days..."

Unfortunately, such situations are typical.

It is especially important to implement the board's measures to improve transportation management by using computers and microprocessors.

Perestroika urgently requires the fuller use of all reserves for improving labor productivity in the sector. Without this transportation will not be intensified.

11574

#### **Railroad Troops on BAM Construction**

18290138b Moscow KRASNAYA ZVEZDA in Russian  
19 Jul 88 p 1

[Article by Major V. Linenko and Captain V. Zuyev, special correspondents: "BAM: A Busy Time"]

[Text] It is a busy time on BAM's eastern section. Railroad troops are readying a 170 kilometer stretch, the Fevral'sk-Tungala startup complex, for permanent operation.

A State Commission Act will be signed on the eve of the 70th anniversary of railroad troops, 5 October. Will they succeed in getting the complex ready by this time? Together with the roadbed and mainline they have to introduce an electric power line, siding, other structures and even trackside settlements such as Duga and Fevral'sk.

BAM workers think the deadline is completely realistic. At one of the startup projects I talked with Lt. Colonel V. Kazhdan. The first lengths of track on other sections were laid under his command. Here is what he said:

"We are fully capable of completing the work within the intended time. Of course, everyone will have to exert every effort. The main things are having troops with related specialties, getting construction materials on time, organizing labor and many other factors. The basics are well organized living and services for soldiers and concern about peoples work and recreation.

"It is more active at the project, work is mechanized. At the battalion commanded by Major S. Mager they have built and are successfully using a set of machines to excavate foundations for power lines. With the help of an excavator mounted on a railroad flat car and a trenching machine, communications workers were a half year ahead of schedule in building towers for the power line. By the opening of the 19th All-Union Party Conference they had provided permanent power supply from Fevral'sk to the Skalistiy Siding.

"There have been enough calls to work diligently. Nothing will come from relying only on people's enthusiasm if not supported by organization and materials. It is now necessary that work be well thought out and technically supported. The project's engineering staff is directing its work towards this. For example, at the mechanization battalion commanded by Lt. Colonel I. Kurakin they are skillfully using progressive methods for organizing labor and are economically using fuel and lubricants.

"However, not everything is going well at the startup complex. There are concerns about disruptions in construction material and equipment supplies. Keep in mind that during the first years the mainline through the taiga was being built, there was a slogan throughout the country 'A Green Light for BAM Orders!' Enterprise and association collectives tried to give first priority to everything needed by the builders. Sometimes they even worked overtime. Transportation workers invariably gave the green light to freight for the project."

I want to especially mention one example of this help. Roman Grigorevich Trush, a tracklaying machine mechanic who, together with railroad troops, laid the "golden length of track" of the mainline at the Siding imeni Geroy Sovetskogo Soyuza V. P. Miroshnichenko a year earlier than planned, had to go to the Poleteli Machine Building Plant in Kaluga during the most intense time of his work in order to get rail grapples for the track laying machine. The Kaluga workers not only quickly built new ones, but made the design changes recommended by Trush. The machine builders understood that it was not permissible to have idle track workers at BAM.

Today some departments are too decisive in rejecting problems from the mainline. Needed equipment is being delayed for the BAM's eastern section. Having assumed increased socialist obligations, railroad troops have repeatedly sent suppliers telegrams asking them to speed up deliveries. However, collectives at several enterprises

continue to wait until the end of the quarter before they send their products. This is why there is a threat that the startup of the boiler at Dugda will be delayed.

Lt. Colonel V. Melnichenko says, "Not all projects are supplied with equipment for railroad operations, even though only a little more than two months remain before the startup complex. Much of this is the fault of the Tynda group of Ministry of Railway clients."

Suppliers' weakened attention to the fate of the only startup complex on the eastern section of BAM this year is undermining the initiative of railroad troops who are trying to keep their word—put the startup complex into operation ahead of time.

11574

#### 'Transport' Communications Equipment Described 18290137a Moscow GUDOK in Russian 3 Jul 88 p 2

[GUDOK correspondent O. Stolyarov interviews Victor Fedorovich Kalinichenko, developer of the new "Transport" railroad communications system, "A Difficult Road for 'Transport': Voronezh Production Association 'Ehlektrosignal' Masters Output of New Communications System for Railroad Workers"; source introduction precedes interview]

[Text] The concept of rail traffic safety encompasses a great deal but, more often than not, it is tied to the condition of the route and of the rolling stock. Just look at the catastrophe at Kamenskaya station. It happened for many reasons, including a lack of reliable communications. The time came to make the right decision but at that instant it was as if the airwaves had gone deaf, leading to the tragic outcome.

This is the very reason that production output of the new, modern "Transport" railway communications system has caught the attention of railroad workers.

The new communications system includes 20 types of radiostation for all rail transportation technical networks. The multichannel capacity of this, in many ways, unique equipment, automatic frequency shifting, the capability to link freely any subscribers along a rail traffic route, protection from discontinuous interference, selective calling, a wider range of working temperatures, and output of information to a display screen—this is far from a comprehensive list of the merits of "Transport."

We will look at only one of the products manufactured by the Voronezh Production Association "Ehlektrosignal"—the RV-1 radioset. This two-band, microprocessor controlled radioset is intended for locomotive crews. With the help of a keyboard, the numbers of the

train and locomotive can be dialed, so-called discrete information entered in the microcomputer, and the computer itself will see that the information reaches the addressee.

[Question] "No doubt it is difficult to learn to operate such a radioset," I asked V. Kalinichenko, the developer of "Transport."

[Answer] "Typing on a typewriter is more difficult," smiled Victor Fedorovich. "Problems of a psychological nature are more troubling—'What is this: a microcomputer, screen and keyboard...' But I think the operators quickly will see the merits of this reliable assistant. You will agree that stable, trouble free radio communications mean a great deal under heavy, high-speed traffic conditions. The RV-1 radioset is precisely five times more expensive than those being employed, but its use is justified economically."

[Question] "Just how does the RV-1 compare to similar radiosets in the world?"

[Answer] "It is difficult to compare. Nothing is analogous. In the FRG, USA and Japan railroad workers use good radiosets but they work on one band. Ours works on two and this means that transmission and reception are on two channels and thus more reliable. The remaining parameters for evaluation by specialists conform to world standards."

"We can only lament the fact that this long awaited new product was a long time forcing its way through the system. Railroad workers began to talk about the necessity of having a more reliable radioset at their disposal twenty years ago, but only now are the first small scale batches being manufactured. Years and years are needed to supply the rail network fully, all the more so since right now the association is 97 percent swamped with state orders. In this situation, the RV-1 is looked on as an illegitimate child, even as similar new equipment rolls off the conveyor."

"At one time, The Ministry of Railways was not persistent enough and only lately has begun to 'push through' the innovation to all levels. The ministry got hot as the saying goes! But under the weight of state orders and given the poor supply of some component parts, association workers do not promise to begin serial production quickly—even though we are talking about traffic safety on the nation's rail main lines. It is for this that we must do everything to ensure that railroad workers have a reliable communications system at their disposal more quickly."

#### Plans for New Rolling Stock Detailed

18290137b Moscow GUDOK in Russian 12 Jul 88 p 2

[Interview with A. Yuhnevskiy, assistant director of science at the Kalinin branch of the All-Union Scientific Research Institute for Railroad Car Construction under the "Transportation Equipment Review" rubric: "Traveling in Comfort"; first paragraph is GUDOK introduction]

[Text] In accordance with the modernization program project at the Kalinin branch of the All-Union Scientific Research Institute for Railroad Car Construction [VNIIVa] under the USSR Ministry of Heavy and Transport Machine Building, new futuristic passenger cars are being developed. Part-time correspondent M. Shtejn asked A. Yuhnevskiy, assistant director for science at the Kalinin Branch of VNIIVa to tell us about the new rolling stock.

[Question] Aleksey Alimpiyevich, two new models are being developed at your branch. One of them has the rather mysterious designation "Block module construction passenger car with convertible compartment." Please explain what this means.

[Answer] The main feature of the basically new model, compartment passenger car and what distinguishes it from all previous models is that the interior of the lounge can be converted easily depending upon the requirement. For example, in summer when the peak passenger carrying season is approaching, the compartments can seat six, but in winter, when the passenger flow is decreasing, they can be converted to four, or even two-seat compartments. This is possible because the second and third berths are not fixed but can be lowered.

A second feature is that the lower couches consist, in fact, of three seats.

And there is a third feature of this model. In order to create the highest possible conveniences for passengers and conductors, we decided to abandon standard dimensions and make the car 20 centimeters wider and three meters longer.

[Question] That's interesting! Just what are these conveniences?

[Answer] There are quite a number of them but I will mention only a few. The semi-upholstered couches and berths, unlike the hard wooden seats of today, are significantly more comfortable. A built-in closet for outer garments and installation of air-conditioning is proposed for each compartment. An automatic, microclimate control system which maintains optimum temperature and humidity in the lounge is envisaged.

A basically new, more reliable and convenient power supply system is being planned and the comfort and reliability of the cars themselves have been increased.



[Question] Tell us please, who are the originators of the new model?

[Answer] It is being done through the collective labor of the department of long-range development, headed by technical sciences candidate, V. Meyster and chief of the body shop, P. Lomakovyy. Also, specialists from the Chief Engineer's department at the Kalininskiy Rail Car Construction Plant [KVZ] under the supervision of V. Kochubeev are taking an active part in the development and planning.

[Question] When will the prototype appear?

[Answer] Preparation of all the technical documentation will be finished next year and we plan to manufacture the prototype at the KVZ toward the end of 1990.

[Question] And series production?

[Answer] In 1993, also at the Kalininskiy plant.

[Question] We know that the Institute works on high-speed transport. It would be interesting to know how quickly we will move in the near future.

[Answer] In that very same department of long-range development, jointly with KVZ designers, they are designing a bogie, the primary assembly upon which both the speed and reliability of the car depend, for a high-speed car. The projected speed is up to 200 and, later on, up to 250 kilometers per hour.

[Question] What is the distinguishing feature of the new bogie?

[Answer] Basically, it has a different, so-called swing-free construction. Besides the normal hydraulic brake block, disk and electromagnetic emergency brakes also will be installed.

[Question] What is the completion period for this work?

[Answer] The prototype car with this bogie should be manufactured as early as the end of this year. Limited series production of 20 cars per year is planned for the next decade.

[Question] Where do you propose to use such trains?

[Answer] High-speed cars and locomotives are significantly more expensive than the regular ones. Moreover, they require a specially equipped main line. For this reason, right now we plan to use the first high-speed trains only on three lines: Moscow to Leningrad, Moscow to the Crimea, and Moscow to the Caucasus.

**Longer Trains Needed for Passenger Boom**  
*18290139A Moscow GUDOK in Russian 10 Jul 88*  
pp 1-2

[Article: "Moscow-Crimea-Caucasus: A GUDOK Investigation into the Organization of Long Passenger Trains"]

[Text] Summer has come and again there is the very urgent transportation problem, which is now usually called the "passenger boom." In the past 2 years passenger use increased almost 11 percent. If these growth dynamics continue, then by 1990, if passenger trains remain the same length, the southern routes will require an additional 10-12 trains daily.

But where can they run? There are not the capabilities for them either in the Moscow yards nor in the entire stretch from the capital to the south. Specialists propose building a special high speed Moscow-Crimea-Caucasus mainline. However, this would not only take years, but would require large material outlays. People need to be moved now.

"The Mucovites found a way out of the situation," reports I. Kokoulin, our correspondent for the Moscow Railroad Line. "The organization of heavy freight traffic eliminated the need to build additional main tracks on a number of routes to handle the increasing flow of freight. Applied to local traffic, this method, using long electric trains, made it possible to increase section capacity by 20 percent. Finally, increases in passenger train length on the Yaroslavl, Kiev, Belorussian, Riga and Paveletskiy routes (82 trains 20-24 cars long each) made it possible last year to transport an additional 2 million passengers. It did not require an additional 10 trains daily."

This experience is support for the Moscow railroaders' solution: making up 24 car trains on the Moscow-Crimea-Caucasus route. It is proposed to do the work in two stages: this year 17-20 pairs of trains will be lengthened and next year all will.

Tracks are being lengthened at large stations: Moscow, Tula, Skuratova, Orel and Kursk. Prior to the completion of this work a temporary alternative is planned: Regular length trains will be dispatched from Moscow. In Tula, Orel and Kursk additional groups of cars will be coupled to them.

Muscovites think that this method will have two benefits. While previously reservations were required for passengers leaving from large stations, now trains from the capital can be filled up by selling tickets without reservations. Passengers originating in Tula, Orel, and Kursk will have their own cars, for which they can buy round trip tickets.

Unfortunately, managers of railroad lines in the south agreed this year to operate only four 24 car and ten 20 car trains. Although the increase is substantial, more than 2,000 passengers daily, is much less than the Moscow railroaders asked for.

So, the Moscow mainline is now ready to dispatch this type of train. However, support from the ministry is not evident. So far it has not allocated the additional rolling stock. The full implementation of the Moscow plan will increase capacity on the southern route by 30 percent in the immediate future. This is equivalent to building a third mainline on the entire route.

What should be the attitude towards organization of long train traffic on lines linking Moscow to the south?

B. Sverdlov, our correspondent in Donetsk, tells us that even in the winter it takes a lot of luck to get a ticket to the capital on the "Donbass" and in the summer it is even more difficult. At the same time, however, sections to Kursk are always sent out not completely full. The surprise of the Donetsk railroaders was understandable when the MPS [Ministry of Railways] issued an order to couple another car to Kursk on the fast train. They objected to the line management and resisted, but they did couple it on.

To Kharkov this additional car was just barely filled, after that, travelers could not be found in the daytime with a flashlight. So that the conductor wouldn't be bored, all the passengers were gathered into one car and divided into two groups. It is of course a shame to so wastefully use rolling stock during the busy summer season. All the more so, because there is an extremely acute shortage in Donetsk. This season, for example, they are about 200 passenger cars short and some trains had to be taken off the schedule.

All the same, Donetsk railroaders are greatly concerned about the beginning of traffic with long trains. True, they are basically prepared for them. On the Caucasus route, the platforms at Ilovaysk, Konstantinovka and Gorlovka have been lengthened, and for trains from Kiev, so have platforms at Krasnoarmeysk and Yasinovataya. However, these are minimal requirements. An average of 6-7 stops should be eliminated for each long train. Clearly, in a densely populated industrial region this innovation in passenger movement will cause losses.

There is still another inconvenience awaiting those traveling to the large all-union health resorts along the Severniy Donets. Because the platforms are not ready, the stop at Slavyansk, the closest station to sanitarium, will be discontinued. What will be done with ill passengers?

"We have heard nothing about long trains," they told me at the Slavkurort Administration. "The discontinuation of the stop at Slavyansk is bad news. We always send a

"first aid" vehicle to pick up the seriously ill. It would be a problem to drive to Konstantinovka. This is why we are not happy about the railroaders' plans."

The question arises: Did the transportation workers really not foresee all the difficulties in the situation? The big problem is that it is not so easy to expand the platform at Slavyansk. The design calls for spending tens of thousands of rubles, but there is not a single construction organization to handle it. The first stage of the new project uses the area where locomotives are changed or cars serviced. Track and train crews at Slavyansk will have to roll up their sleeves. The same lot awaits workers at other stations.

Many on the Donetsk Mainline still have a glimmer of hope that perhaps the long trains will be cancelled.

The Donetsk Mainline is only a small "two bit" territory through which passenger trains pass in their rush south. Perhaps the fears of Donetsk railroaders are all for nothing. Let us hear what they say at Kharkov, the largest passenger hub on the southern route. I. Shishov, the GUDOK correspondent, reports: When one talks about long trains, the southerners throw up their hands. Take the Moscow-Kursk station, for example. For several years it has not taken 20 car Karkhov trains. Eighteen cars and that's all. Two cars are dropped off and sent home as reserves.

Now, at the initiative of this same Moscow station, there are to be 24 car consists. It turns out that they will take 24 from us, but only give us 18? They reassure us: Go as far as Kursk or Orel, uncouple six cars there and send them to the capital. If you want to go from Moscow to Simferopol or to Sochi, first get to Orel or Kursk somehow and then get into a long train...

I asked workers at the line management if everything was ready to run 24 car trains to Kharkov, Belgorod and Lozovaya. They shrugged their shoulders. Nobody had a clear idea.

They confidently say that ChS7 electric locomotives are capable of pulling long trains. But the, noticeably lowering their voices, they add that there are no more such locomotives available. There is a 30-40 percent shortage of cars, while passenger platforms and incoming and outgoing tracks have not been lengthened. At a minimum 20 million rubles are needed, but nobody has allocated them. However, if they provide the money, then the work will be completed in four years, while long trains can start running now.

"Probably they won't run, but will fly with the breeze." I tried to get my interlocutors into a good mood. "You know the number of stops will be markedly reduced."

"If that were only so," they again object. They show me two passenger train schedules. One is last year's and the other this year's, right from the printer's. In them it shows, for example, that "through" train No. 51, Moscow-Sukhumi, which should be long and which on even numbered runs has 13 stops and on uneven—7.

After leafing through the book, I was convinced that, contrary to what was planned, all "through" trains would stop at certain stations.

The question of inspecting lengthened trains at stations on the Southern Line is as follows: It is necessary either to lengthen the time of the stop, or increase the number of inspectors. In any case there will be losses of time and resources.

Twenty four or 32 cars, why not 35 or 40? There is no rational foundation for the length selected. The Southern Tekhsovet [Technical Council] examined the possibility of 32 car trains, proposed by VNIIZhT [All-Union Scientific Research Institute for Railroad Transportation]. One such train was recently formed here and, as an experiment, run without passengers to Moscow. What happened? It was shown that in many important ways, including questions of passenger safety, the lines were not ready for the new technique.

Like it or not, today's superpassenger trains have a strong resemblance to those unfortunate freight "dinosaurs" which, at one time, were formed on the principle "more is better." Not many of them travelled well through the line sections. Poltava railroad workers have the Southern "record," putting together a train weighing more than 40,000 tons. They admired it from a helicopter, saying "What an impressive giant." Soon, they saw how this "dinosaur" separated the rails underneath it and, with a thunderous crash, derailed.

A very short report came from Simferopol—the final point on the trip from Moscow to the Crimea. Our regular writer, G. Glenbotkiy, writes that things are tense at the Simferopol station because of unpreparedness to receive long trains. Traffic has been increased to 107 pairs of trains daily. However, the new fourth platform, which should take 24 car trains, is not only not ready, but is still not even planned. To make way for it the incoming-outgoing track was torn up and the station lost some switching capabilities.

It turns out that long trains are unwanted guests in the Crimea. Perhaps in the North Caucasus they responded more seriously to the initiatives from Moscow?

V. Kurkov, correspondent from the North Caucasus, writes: "Long passenger trains are probably the best solution for the very large Moscow system. But why once again use eyewitness for normal operations and try to see oneself as an initiator? They suggest: follow the Muscovites' example and prepare for long trains. Excellent. However, in order to couple up extra cars it is, at the very least, necessary to have them.

It was shown on TV how in Moscow they are lengthening passenger platforms and tracks and rerouting crossing streets. Track workers are busy. However, specialists are not deceived: The MPS main administration keeps all

track workers on short rations. There are simply not enough switches, rails and even spikes to replace those which are worn out.

This work, which sounds like a Moscow deed, is actually in second place. Last year the North Caucasus Line prepared for 24 car trains on all the spa routes: Sochi, Kislovod and Novorossiysk. The railroad workers were serious about this and did not engage in any eyewash.

Recently I witnessed interesting work in Krasnodar. A helicopter was hovering over the yard entrance tracks. It was carrying a huge light pole from an area between the tracks in the freight yard. They were getting the track ready to handle not only 24-car, but 30-car passenger trains. I asked, Ye. Goriakov, the director, "Is this in response to the Muscovites' deeds?" He answered, "No, we are following our own plans made last year."

In the summer four trains go from Adler to Moscow. Why, without waiting for deeds, not consolidate these into three trains? It turns out that such questions have to be answered in Moscow. Changes in this matter must not be directed towards one another, but towards passengers.

In the North Caucasus there are only three massive points where long passenger trains are needed—Adler, Kislovodsk and Novorossiysk. However, if this Moscow deed is copied as zealously as it was for superlong freight trains, then one can talk about the next demarche of eyewash.

As can be seen, checking lines' readiness to receive long trains turned out to be surprisingly difficult. Rejecting simple answers, our correspondents looked at this problem from a much broader perspective. We understand now that that involves more than just economic questions.

There are doubts about the Muscovites' initiative. Why? Because people have had enough ballyhoo not supported by realistic calculations. Judging from everything, history might be repeated here. Where money is not allocated for developing yards and stations and where construction workers cannot be found, they await for orders "from above." As a result, they are already talking about how this is only advantageous to Moscow, and how other lines are the losers. How long will this "divergence of interests" between individual routes and the entire transportation system continue?

The MPS Main Administration for Passenger Operations has a strange position here. It is one of waiting. Perhaps ministry workers also do not have a single opinion on this. If there is a solid conviction that long trains will make possible a 30 percent increase in line capacity, then why is there no real help and no control over completing the assigned tasks? Whose initiative it was, Moscow's, Kharkov's or Rostov's, is completely unimportant. The main thing is that the matter does not stand still.



### Armenian Rail Operations During Strike Highlighted

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[Article by S. Babayan, correspondent: "The Situation Remains Difficult"]

[Text] Yesterday, early Saturday morning, the Yerevan underground's first train left the electric train depot on time and moved along the metropolitan line. The second train followed it at the required interval. During these tense days the buses, trolley buses and trams were not working, so the Yerevan Metro assumed the entire urban transportation load. There was a strike. Under these conditions the labor collective at the Yerevan decided to haul passengers for free.

M. Artyunov, chief engineer for the Metropolitan, said, "We exerted maximum efforts to prevent disruptions in work schedules. Many difficulties had to be overcome, but we handled the task."

The "free" sign over the entrance to metro stations has already been removed.

Yes, the situation in the city during these recent days was very alarming: demonstrations, meetings, speeches. Then there was the tragic incident at Zvartnots Airport. When flight schedules were disrupted, railroad workers had to use additional rolling stock to haul air passengers.

I admit that it was strange and unusual for me to see people on the streets who had left their jobs. Thousands and thousands of them walked down the city's main streets.

"There were practically no railroad workers among them," said A. Khachatryan, party committee secretary at the Yerevan Railroad system. When truck drivers struck it was naturally very difficult to haul freight from the station. We had to unload arriving freight ourselves. As you can see, there is not enough room left for even a needle in the warehouses and storage areas. On some days railroad workers from other enterprises in the system and student-trainees came to help workers in the mechanized district.

Last Saturday morning there was a truck shortage at the station's mechanized yard. Also, not all enterprises had resumed processing freight cars. These conditions were very difficult for railroad workers.

I walked up to some technical office workers.

"How is work going?"

"We are trying to find a way out of the situation," answered G. Oganyan. But we cannot continue long this way. "Personally, I did not leave my job, because I know

that transportation cannot be stopped for any reason. However, I support those who feel that the problem of Nagorno-Karabakh must be solved, and the sooner the better."

During these days I visited several enterprises in the Yerevan railroad system. At the height of the work day I visited the line division. It was unusually quiet. Most foremen had been going from one enterprise to another. Understandably, it was not an easy situation, help was needed on the spot.

"What is the situation on the line?" I asked A. Kazandzhyan, the freight department chief. He answered, "Railroad workers are working at full strength." I called the stations at Leninakan and Kirovakan. The situation was somewhat different there. There were not so many strikers as in Yerevan. Nevertheless, railroad workers had great difficulty in maintaining the work pace at these places.

"How is work going now?" I asked R. Sekhleyan, chief of the Kirovakan Station.

"It's already easier. I think that within a week we will be able to ship out the freight which has accumulated and make up for shortfalls in loadings. Our collective is international: Armenian, Russian, Georgian, Azerbaijan. We live together peacefully."

For several evenings most of the shows on Armenian television have been dedicated to the events in Yerevan. Workers, specialists and people in science and culture have been speaking. The emergency situation forced the Catholicos Vazgen I to make a television appeal to all Armenians. This appeal was published in the morning papers. The Catholicos speech was a call to prudence, to friendship among peoples and to respect law and order. He expressed deep sympathy to relatives and friends of victims of the incident at the Zvartnots Airport.

Such were the events in Yerevan. In Stepanakert, the center of the Nagorno-Karabakh Autonomous Oblast, the strikes are continuing. I phoned E. Shakhzadov, chief of the Stepanakert Station on the Azerbaijan Railroad Line.

"I will give no information. Call the division or line management in Baku."

I got through to Kh. Kyazumov, chief of the Department of Container and Commercial Operations.

"The situation is serious," he said. "The city is not working. There are 130 freight cars at the station awaiting unloading. The customers are not picking them up. Yesterday only eight cars were unloaded. We ourselves unloaded half of them, while freight from the other four was hauled away by people from rayons near Stepanakert. Passenger traffic is not disrupted, railroaders are working."

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